TRADING FOR BEGINNERS.COM

Brought To You By
http://www.tradingforbeginners.com

What are the differences between trading and gambling?

By Zoran Kolundzic

Many people think that trading is similar to gambling. Is this really the case?

For example, let's take a look at Black Jack. If you start with $10,000 gambling capital, placing bets of $100 per hand and play 100 hands per day, how long will you last? In the game of Black Jack, with Las Vegas Strip rules, a casino has a built-in advantage of 1.5% over the player in the long run. That means that on average, a player will lose $1.5 per any $100 he bets with. After 100 hands, on average he'll be down $150. Starting with a capital of $10,000 a player would last about 67 gambling days. That is very similar to the previously described trading scenario. In such case I would choose gambling because at least I would be losing my money in a more pleasant environment.

I chose Black Jack for our example because it is the only casino game in which it is possible for a skilled player to increase his odds to such extent as to be able to beat the House in the long run. A skilled counter can obtain advantage of up to 1.5% per hand over the House in the long run. That means that such a player playing 100 hands per day and average hand being $100 could double his gambling capital of $10,000 in less than 50 days. Similar odds apply to trading stocks, with more potential for profit and less chances for being kicked out of a casino. In order to make it work for you, we'll need to get the odds on your side. Now lets look at how we can extract as much profits from our trades as possible.

Understanding Trailing Stops

Once you are in the trade and the price has started moving in your direction, you need to extract as much profit as possible. Not being able to do so will make you a losing trader in the long run. How can a trader lose if he only takes small profits at a time? Profit is profit, isn't it? Not exactly… Profit of $550 is not the same as a profit of $850. If such profits are followed by three losses of $200 each, profit of $550 will become $50 loss, while profit of $850 will become $250 win. Do you get my point?

Profits are always followed by losses and if the profits are small they will not make up for the losses that will eventually and surely follow. However, becoming too greedy can turn a small profit into a loss. This will make you lose money in the long run. The best solution to resolving these conflicts is to use trailing stops.

As the name says, trailing stop follows the stock price that is moving in your direction. For example, let's say that we have bought two S&P 500 contracts at 875. We will automatically put our stop loss at 1 point below the support line or if that is over our 4% limit we will put our stop loss at 871. The price starts to move upwards and reaches 876. We will now move our stop loss at $871.75. For every one point move in our direction we will move our stop loss 0.75 points up (or down if we were in a shortsell trade).

However if we were trading two contracts and the price has in our example hit 879 (4 points profit for ES or 10 points for NQ) we would sell one contract to protect our profit and for the remaining contract we would use trailing stop.

To read more about Zoran Kolundzic course click here...

Good Trading

Best Regards
Mark McRae