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How to Make Consistent Profits Trading Futures Part I

One of the mistakes I consistently made in my early years as a trader was to try to make too much money in relation to my trading capital. To make £1000 a day while trading with £10,000 is absurdly ambitious; of course I have done it many times, as would anyone with this intention, but I have also gone bust on more than one occasion. To have the aspiration of taking £1000 out of the market each day, when trading with £10,000 or under is, I think, a quick route to the poor house.

So what is a reasonable objective for a day trader?

A few weeks ago I visited an ex-floor trader who has set up a trading operation backing young aspiring traders. I was interested to find out from him how he trains his team. The essence of his approach is to give them a grounding in discipline and confidence. He believes that confidence is one of the primary keys to success in trading and that confidence is a by-product of taking money out of the market.

One of the reasons he has chosen to work with young traders is that he wants people who have minimal financial commitments. He knows it will take a while for them to start earning an income from the business. So his belief is that if his traders can regularly take small amounts of money out of the market, their knowledge, skills and confidence will grow and in time they will become bigger traders. What is critical about this approach is that his traders do not grow in size until they have achieved consistent, regular success on a small scale; and we are talking small, I mean £25 or £50 in a day.

What can we learn from this low risk approach? Well first let me ask you: what is more important, to make money today, or to become a consistently profitable trader? Because if we want to become consistently successful traders we need to take a different tack than if we are just out to make as much money as we can today.

So back to the question, what is a reasonable objective for a day trader? Well let's look at bringing our daily target right down to £100, with £10,000 of trading capital, i.e. 1%. Now £100 a day, trading a market like the FTSE seems an achievable target to me. That is a net profit of 10 FTSE points a day. Can you come up with a system that trades 5 times a day and has an average net profit of 2 points? Or a system that trades 10 times a day with an average net profit of 1 point?

Is that a yes I hear? Because if you can make an average of £100 a day you will double your money in 100 trading days i.e. 20 weeks or about 5 months. If you double your position size every time you double your money, your account will grow to £1,000,000 in 140 weeks, which is less than 3 years! Of course this does not take into account the impact of tax; but my point is that by taking a low risk, conservative approach to trading objectives, we give ourselves the chance to grow and develop into traders, while also availing ourselves of the possibility of a deceptively good return.

If at this point you are tearing your hair out and screaming at the screen that I am a fool for suggesting that you can trade a strategy that averages a few points a trade, I assume that you are not familiar with the benefits of direct access trading. Direct access trading effectively gives everyone and their uncle the same low costs, immediate trade execution and access as was exclusively enjoyed by the floor traders before the advent of the electronic market place. To learn about the advantages of direct access trading...

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