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### Stopping Yourself

I read on a bulletin board a traders comment that on his first outing trading the E-Mini S&P 500 he lost on each of his trades. He noted though, that had he had a wider stop each of his trades would have been profitable and that therefore he would be trading with a wider stop in future. A wider stop on these particular trades may have worked, but this does not mean that a wider stop per se is the answer.

In fact, everyday there is the possibility of any given trade going into profit if given enough room, but that does not a wise strategy make. This trader was a seller in a market that subsequently went down; hence he could see that had he given his position a bit more room he would have made a handsome profit. Unless this trader has the ability to always accurately predict the direction of the market he is going to experience days where he is wrong and the market goes against him, in which case his potential for loss with wider stops is greater.

When deciding an appropriate amount to risk on any trade (i.e. size of stop) a trader has to consider more than the potential profit on a particular trade on a particular day. What this trader was saying to himself was 'If I had a 3 point stop instead of a 1 point stop, I could have made 15 points; therefore I will always use a 3 point stop!' Partly what he was saying to himself was 'I was right!' But he wasn't right; in the time frame of his trades and within the risk limit of those trades he was wrong, his timing was off and that is what he needs to work on.

He is also making two assumptions:

- That having a bigger stop and therefore bigger open losses will not affect his trading composure and performance (how do you feel if you are risking £10? £100? £1000? £10,000?)
- That he would have held on to his profitable trade until he gets an exit signal (it is easy to assume after the event that we would have got out at the very best moment)

The truth is we are all much weaker than we would like to assume. The biggest challenge to profitable trading is sticking to our own self-imposed loss limits, be they on a per-day or a per-trade basis. What this trader did on this day was stick to his limits, which is highly commendable; he was just having difficulty accepting his results. No one likes losing money and no one like being wrong, but to be successful in trading we have to be accepting of both.

Malcolm Robinson

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