Guide to Better Futures Trading Preparedness

GFF Brokers, Inc.

Preparing to Engage Risk

Futures trading is a risky enterprise – every futures trader has heard this warning. After all, you are not buying or selling "shares" of a company or asset. You are essentially buying or selling "risk" with the goal of making a profit.

Granted, when you engage risk, things can sometimes go wrong. It comes with the territory. And as a financial institution that has serviced many self-directed futures accounts--that is, clients who trade unassisted and on their own--we've seen *lots of things go wrong* over the years.

Some Risks Are Unnecessary and Avoidable

But here's the thing: *many of the trading mistakes that result in severe losses can be prevented*. Yes, not all risks are random. Not all are caused by the markets or technology issues. In some cases, your greatest risk is YOU. Not to be underrated is the risk of not being prepared.

Our goal in this e-book is to share some of the more common mistakes we've seen traders make due to a lack of trading preparedness. Some risks are unnecessary and can be prevented by following a set of simple preparatory rules and guidelines.

Please review the following rules and guidelines and consider applying them to your trading plan.

Understanding Risk

Before we begin, we want to remind you that there is a risk of loss in futures trading and to trade only with capital you can afford to lose. You've probably heard or read this before, often in trading seminars, webinars, or written content. It's called a "risk disclosure." It is easy to skip over disclosures, but there is a reason why it's often repeated and required. If you are trading with money that you can't afford to lose--money that you need to sustain yourself and to pay for your day-to-day expenses--*how "prepared" can you possibly be?*

The answer is that you won't be prepared at all. So the first rule that comes before all trading preparedness rules is to not trade unless you are using "risk capital." If you don't have it, you can't trade it. Period.

Now with that behind us, let's move on to the next set of rules that can help you be better prepared for trading the markets.

Rule # 1 - Memorize Your Account Number

Imagine: you are holding a losing position, one that is going against you...fast! For one reason or another, your electronic trading platform won't respond. You need to close your position ASAP. So, you pick up the phone and call the order desk.

The order desk asks for your account number so that the clerk can help you as quickly as possible. But you can't remember it. Your computer is frozen and your account is losing money by the second. The longer it takes for you to find your account number, the greater the risk of loss in this scenario.

Don't make this mistake; memorize your account number!

Rule # 2 - Check Your Account Statements EVERY DAY

If you've ever spent time carefully analyzing your daily statement, you probably realized that STATEMENTS ARE COMPLICATED! And can get even more complex if you leave positions open beyond the market close. Why check your statement every day? Some of the main things you should make sure you are checking daily are:

- Open positions
- Changes in margin requirements
- Account balance
- Proximity to falling under margin

Make sure to check your statements not only every day that you trade, but *every single day*. Why? What if you mistakenly opened a position or left a position open that you didn't know about? What if the exchange accidentally mis-assigned a trade to your account? If you need help reading your statements, call your broker and have them walk you through it. Checking your statements may seem tedious, but in the end it's something that you won't regret doing, especially if something goes terribly wrong.

Rule # 3 - Understanding the Order that Open Positions are Closed

If you are placing a straight-forward day trade and open and close the position within the same day, the process is straightforward enough. But watch what happens when you have multiple open positions (from the same day or different days) and start closing them. Understanding the order that open positions will be closed can be extremely confusing and can be seemingly illogical.

First Rule of Thumb: If multiple positions were traded on the same trading day and a position is left open, then the highest priced position is usually held open with most FCMs.

Example:

- You sell short an IMM Mini EUR/USD contract at the price of 1.17060.
- Later in the day, you sell short another contract at 1.16310.
- For your final trade, you buy one contract back, leaving only one short position open.

Here's a question: which position will the FCM hold open after market close? The answer is the first trade at 1.17060. Why? It's the highest priced of the two.

Second Rule of Thumb: If you open and hold positions across multiple days, once you begin closing some of your positions, the newest trades will be closed first with most FCMs. Trades from the same day will be closed first.

This complicated accounting practice can get confusing. It's best to contact your broker for further clarification on how this will apply to your overnight trading.

Rule # 4 – Learn Your Trading Platform Before Going Live

You don't go around driving a car without knowing how to operate the gas, break, or dashboard, do you? That would be reckless and hazardous. So, why should you trade the live markets without fully knowing how to use your platform?

We offer demo accounts of our trading platforms with good reason. Use the demo to learn how to use your platform's key functionalities. If your platform features DOM trading, multiple order entries/exits, trailing stop features, customizable charts, bear in mind that those features are useful ONLY if you know how to operate them.

In certain situations, understanding how to use a new trading platform may be confusing and overly complex. Look at whether the different functionalities of the platform are useful for you and your trading style. If you are not going to many of the features, you need to consider that this confusion may work against you and your trading. Before you begin trading, make sure your platform competence is at a comfortably adequate level. If you have any doubts, ask your broker for a one-on-one tech walk-through or consider switching to a different trading platform.

Rule # 5 - The Margins You Don’t Know Can Hurt You

Let’s talk about margins. What products are you currently trading? Do you know their margins? What if you accidentally leave your position open after market close; what are the margins then? Day trading margins and policies may vary greatly from FCM to FCM, even if you are using the same trading platform.

Some FCMs will actually give you a “margin call” as in...an actual phone call. Other FCMs, on the other hand, will just liquidate your position. In either case, don’t be caught off guard. Read your FCM’s margin policy.

Some considerations:

- Although most FCMs state margins in dollar amounts, some FCMs base their margins on a percentage-based daily loss limit rule.
- Also, during periods of high market volatility, FCMs may increase their margins to help mitigate their (and their clients’) risks.

Don’t be afraid to ask:

- What are my account’s limits, and how do they work?
- Does the account limit increase automatically if the account balance increases?
- Are my account’s limits dollar-based or percentage-based?

Rule # 6 – Don’t Underestimate the Importance of Knowing the Basics

Do you know your contract symbols and monthly symbols by heart? Can you imagine what might happen if you trade the wrong contract month because you mistook one symbol for another? It can be a costly mistake.

Do you know the different front end months for the contracts you are trading, their expiration and rollover dates? Do you know the normal trading hours and the upcoming holiday hours?

Do you know the contract specifications for the markets you are trading--their tick value, point value, and daily limit?

Failing to grasp these basics can significantly increase your risks. Basics are not to be underestimated. And the more you know, the greater your chance of avoiding costly errors.

Rule # 7 - Always Have a Contingency Plan!

There's hardly any project that doesn't come with some sort of contingency plan. As with daily life, so goes trading. **Always be prepared for a disaster!**

What if your computer crashes or what if your internet connection goes down mid-trade?

Obviously, you may need to contact your broker or your brokerage's order desk to confirm you positions. Now, remember rule one, "memorize your account number"? This is where it comes in handy.

Know how to properly place a phone order.

Don't call in a panic and say "get me out of my positions." Be specific. Here's an example of the right way to place a phone order (client wants to close out all but one open position):

> **Client:** This is John Smith account number ABC123 can you tell me what my current position is?
>
> **Order desk:** For account ABC123 I see you long three June YM Dow Jones at 24830 and your working orders to sell three June YM Dow Jones at 25000 even.
>
> **Client:** Please sell *two* YM contracts *at the market* and cancel *two* of my working YM sell orders at 25000. Leave open one YM position and its corresponding sell order.
>
> LISTEN VERY CAREFULLY TO THE ORDER DESK CONFIRMATION!
>
> **Order desk:** Ok, Mr. Smith, you would like to sell *two* YM contracts *at the market* and cancel *two* of working YM sell orders at 25000, leaving one YM position open and its corresponding sell order working. Is this correct?
>
> IF THIS IS CORRECT, YOU NEED TO CONFIRM IT.

Once the final confirmation has been given from the client, your order will be executed as you had requested it. If it is not correct, then you may have to reiterate or amend it.

Be sure that the order desk clerk did not misunderstand your order, because *once you confirm the order--whether it is correct or not--you are now responsible for its execution* (assuming that it had been executed as you had confirmed).

Do you have a direct phone number for 24-hour tech support and order desk in case of emergency?

If you end up having to call the order desk, ideally you would want to know your account number and your open positions. If you do not know any of this information *be prepared to answer security questions to confirm your identity*.

What if an FCM data feed or server goes down?

Another thing you might want to consider is creating a backup account in case your data feed or an FCM server goes down. In other words, you might want to open up a separate account through a different FCM using a different data feed.

If one FCM server or data feed goes down, you can switch to your secondary account to possible "hedge" your positions by taking the opposite trades, effectively "locking in" your position to prevent further losses or gains.

One word of advice here: if you do decide to open a backup account, make sure you select an account type that has **"no minimum trading requirements,"** since you won't be trading often in this account.

Can you open your backup account with a different FCM using the same broker?

It depends on where you are trading. Not all brokerages have this capability, but it is available from GFF Brokers.

GFF Brokers is an IIB - independent introducing broker, which means *we clear via multiple FCMs*. Our clients can maintain multiple accounts at different FCMs while still working with one broker.

Rule # 8 - Know *How Much* You Are Paying and *What* You Are Paying For!

In today's market, trading can be a highly complex enterprise. This means that you have a lot of choices to make.

Here are just a few of them:

- What is the account set up for and what is needed to maintain your account?
- What is the monthly fee for data and will it cover all the markets you intend to follow?
- Are you paying for exchange data that you're not using?
- What kind of data feed do you need: top of book, depth of market (DOM), etc.?
- Is your account designated as professional or non-professional?
- Is there a minimum balance required in order to maintain live active data?
- Are there any inactivity fees or minimum trading requirements?
- When taking a break from trading, can you deactivate the account, and if so, how do you request deactivation and reactivation?
- What are your platform fees, if any? How and when are platform fees debited?

Talk to your broker and make sure you are not paying for anything you are not using!

It is best to keep communication open with your broker. At GFF Brokers, we pride ourselves on maintaining close communications with our clients.

Rule # 9 - Never Stop Learning!

Education is a lifelong journey. This applies to every worthy pursuit. In trading where the stakes can be much higher, where markets change, and trading technologies evolve, continuous education is a matter of survival.

There is so much great FREE trading information out there. Let's start with something simple but useful: there is a lot of materials on our website at GFFBrokers.com

- Under our Resource Center, you can access tutorial videos, free e-books, and more
- There are new educational blogs coming out regularly
- Sign up for our FREE monthly newsletter

The best way to be prepared as a trader is to keep educating yourself!
