SECRETS OF MILLIONAIRE TRADERS

AND WHAT WE CAN LEARN FROM THEM

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Secrets of Millionaire Traders

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Introduction

Thanks very much for downloading this guide. We hope you find it useful. We will be taking a look at some of the world's greatest traders, what makes them tick and what you can learn from them. We'll also be looking at how to approach your trading and the best trading systems you can use.

Firstly though, a bit about us here at **Trade Stocks & Forex**. We are a team of forex and stock market enthusiasts and are constantly searching for the best and most profitable trading tools out there.

Our Managing Director, Dan, is a Cambridge University graduate with over 20 years' experience of testing forex and stock market systems.

We bring you the latest news and reviews from the world of trading as we test out LIVE on this site tools such as forex signals and robots, trading software, stock picks, passive income streams, cryptocurrency and much more.

We record the full results of these live trials so you can see for yourself exactly how well the systems have done and decide if you want to sign up. This could save you hundreds – or even thousands – of dollars in subscription fees and potential losses from systems that don't work.

At the same time you will be able to see what the best systems are and their full, unvarnished records.

Plus we will bring you the latest news and views from across the world of trading so you won't miss a beat, all at www.tradestocksandforex.com

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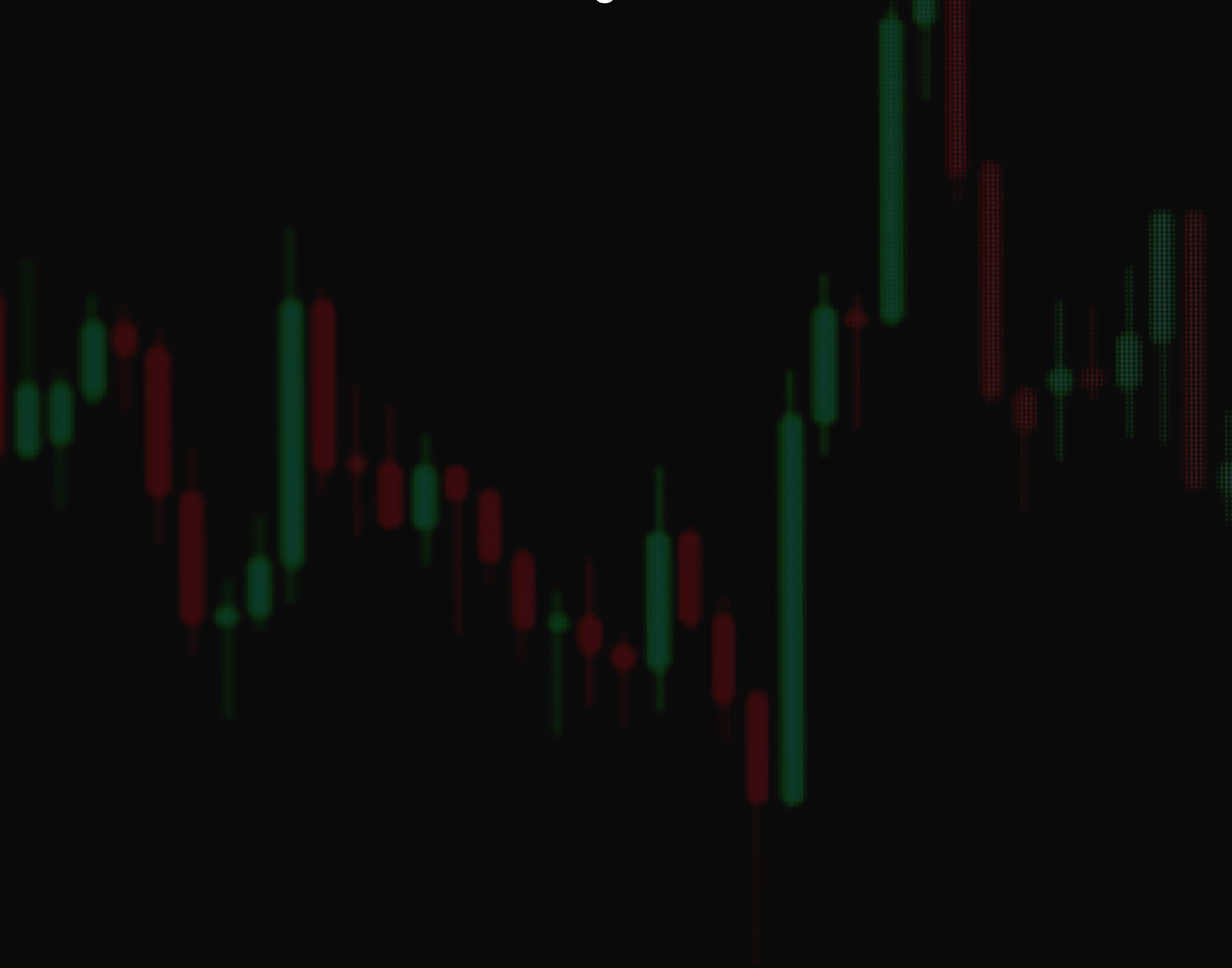
Thanks for checking in with us – now let's get on with the guide!



Top Trader Profiles

What You Can Learn From the Best in the Business

If you are looking to trade the markets – whether it's forex, stocks, indices, commodities, cryptos, or anything else – it's important to bear in mind some basic facts first.

The key thing to be aware of is that making money on the markets is *hard*. You will probably have seen the warnings on forex brokers' websites saying what percentage of their clients lose money. It is normally between 75% and 90%.

As the old adage goes *"90% of traders lose 90% of their account within 90 days."*

The reality is that the large majority of traders lose money. Some estimates suggest the average trader loses between $3,000 and $6,000 per trading account they have, a pretty hefty sum.

So what can put you in that 10–20% of traders who actually make money? Well, one method is to use tried and tested trading strategies that have proven their ability to beat the markets over an extended period of time. That is very much what our website is all about and we will come on to that later in this guide.

The other possibility is to look at the best traders out there and try and figure out what makes them successful. What are their secrets and what can we learn from them? What do they do that the vast majority of us mere mortals don't?

We are going to take a look at six of the most successful traders in the business in an attempt to answer some of these questions. We will profile each trader and then consider what we can learn from them.

Lawrie Inman

Millionaire Trader at Just 25

The year 2015 was Laurie Inman's year of fame. He featured in various newspapers as the 25-year-old city trader who earned £1 million a year. He is a stereotypical trader of his era. Rarely does he wear a suit, he mostly prefers to wear jeans and a t-shirt. His badge of honour is a Porsche, which of course goes with the territory.

Today Lawrie Inman has recently turned 36. He came from Camberley in Surrey and graduated from Swansea University in Business in 2011. His specialisation is buying and selling the five-year German government bond market, Bobl or "bundesobligationen."

Calling It Right

Fond of taking significant trading positions, a movement of one point in the market is worth to him around £10,000 either as a win or a loss. Fortunately, it is mostly the former. He has a reputation for being particularly good at predicting the market directions correctly. In one famous trade made while listening to a speech by Jean-Claude Trichet, the European Central Bank president, he made £700,000 profit.

It is worth looking at that trade a little further. Inman said that central banks talk to the markets in code. Certain words indicate whether they are going to increase interest rates. One of these code words is "Vigilance". If the word isn't used, there is a reasonable chance that rates won't be increased. When Inman listened to Trichet, he noticed the absence of the word "Vigilance", so he immediately "maxed out" of his long position. He took a considerable bet buying the market. The rates didn't go up, everybody wanted to buy, the market spiked, and Inman netted his £700,000 windfall.

Ego as Motivation

To Inman, much of his motivation is based on ego. He says that the financial side of trading is not as crucial as being proved right and knowing that you did the right thing.

While he works at Marex Financial Services, the deal is he retains 90% of the profits he makes on his trades. Marex provides him with a base, a trading desk, and other services based on a profit-sharing deal.

Inman became a multi-millionaire when he was just 25, and he was considered to be one of the world's top 30 traders under 30.

For fun, he likes fast cars (he drives a Porsche 911) and football which he plays most Saturday afternoons. He plays to a reasonably high standard having played for his old university, and he has also played for a team in the Welsh league. When playing for Swansea University, the team went on to win the national university football championship.

What can you learn from Lawrie Inman?

There are two points that stand out from Mr Inman's profile. Firstly, that he is able to make large sums of money on very small movements in the market – sometimes just one pip. That illustrates you don't need to find huge moves in the market to be a profitable trader. Some people look for the "dream trade" of a massive swing of hundreds or even thousands of pips, but moves like that are tough to call and don't happen very often. You can be content with smaller moves, more often. What Inman is good at is predicting which way the market will move, which is the crucial point.

The other aspect to note is that Inman takes hints from the speeches of central bankers and how they talk in "code." Learning the nuances of this has clearly paid off for him and being able to pick up on the hints given can be very lucrative.

Paul Redmond

“The Rooster”

In 2006 Paul Redmond became an elite member of the Traders Daily list of the top traders aged under 30. At the time he was 28 years old and making a killing trading DAX futures.

Working for Rooster Trading, he would typically trade around 4,000 lots a day in the DAX futures market. DAX is the German Stock Market stock index. DAX futures are highly volatile, and so provide plenty of opportunities for the knowledgeable trader to make a substantial profit. On a typical day, the price range can be around 80 points. However, as with all leveraged futures markets, there is a high level of risk, especially for anyone who misreads the signals or has failed to do their homework.

That was not the case with Redmond. As one of the regular bunch of London traders, he was particularly good at reading the signals and getting them right. He quickly acquired legendary status.

“The Rooster”

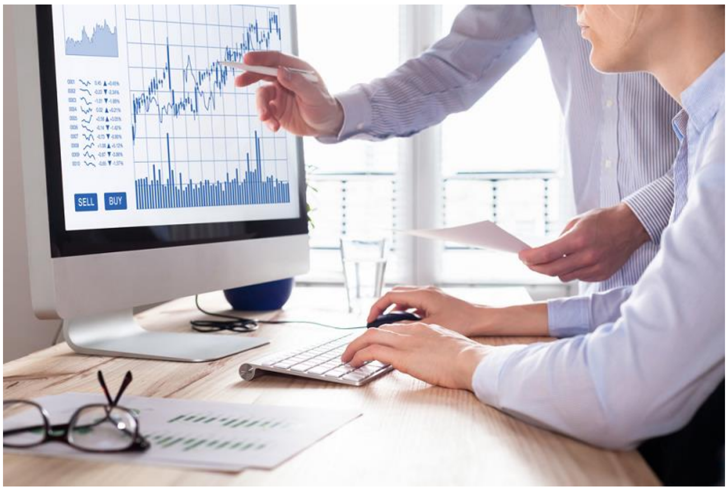
It has to be said that while working for Geneva Trading, Redmond gained a reputation for exuberance. Some of his fellow traders considered him to be a little over-confident, so much so that it wasn’t too long before he gained a somewhat less than flattering nickname. They called him “The Rooster” on account of his apparent cockiness. However, what some people might see as ruthlessness, others would describe as ambition, and there is little doubt that Redmond scored highly on the confidence stakes.

Redmond specialised in trading the equities markets which in 2001 following the September attacks on The World Trade Centre was somewhat hectic. Following the attacks and in anticipation of ensuing market chaos, there was panic selling and a massive loss of value. The New York Stock Exchange and Nasdaq closed down and did not reopen until a week later on 17 September. On the first day of trading, the NYSE dropped by 684 points (7.1%); by the end of the week, the Dow Jones lost 14% of its value.

Undaunted

Redmond remained undaunted throughout this crisis and handled the situation with aplomb. It was during the following year that he moved to London and began trading DAX with Rooster Trading. He started with trading four lots a day which he fairly rapidly grew to 4,000, which by any measure is exceptional progress. He added other traders to his team, creating a three-member firm which was raking in up to $20,000 a session.

Redmond also had a passion for training young traders, particularly in the art of managing high levels of risk associated with significant positions. He believes that handling high risk is something that comes much more naturally to younger traders who only have themselves to consider. *“After all”,* he says, *“when you are young you have nothing to lose. You’ve got no kids. You can start again.”*



Redmond isn’t young anymore and doesn’t still enjoy the larger than life profile he did in his earlier days. The last we head of him was in 2012 when he ran Richmond Capital Markets, but the firm dissolved in 2014. Redmond certainly made more than enough money to retire very comfortably.

What can you learn from Paul Redmond?

There are two lessons to draw from Redmond's success: firstly, he wasn't daunted by the excessive market losses after 9/11. Sometimes events can be shocking at the time but it's important to consider what the long-term impact is likely to be. Often people panic without considering the full implications of a situation. A calm, rational approach and being "greedy whilst others are fearful" as Warren Buffett said can really pay dividends.

Secondly, Redmond made most of his fortune specialising in just one instrument: the DAX Index. A lot of traders try to trade a whole range of different instruments in markets with very different dynamics and never really end up mastering any of them. Specialising in a small number of instruments – or even just one – can allow you to understand the intricacies of a particular market and give you a better chance of profiting from it.

Marty Schwartz

The Trader who Made Millions

Martin (Marty) Schwartz, also known as Buzzy, is a well-known Wall Street trader who has amassed a substantial fortune trading futures, stocks and options.

He is also an author of the day trader's 'must read' book "Pit Bull: Lessons from Wall Street's Champion Day Trader". As a multiple award winner, many people consider Schwartz to be one of the most successful traders in the world.

Early Life – Starting Small

His early life was relatively modest. He attended Amherst College in the U.S. and went on to study at Columbia University Business School. Following his draft to the US Marine Corps Reserves, he returned to Columbia in 1973 to complete his M.B.A. He then joined E.F. Hutton & Co., at that time a highly respected American stock brokerage company, as a financial analyst. Subsequently, Schwartz moved to Edwards and Hanly, a small retail brokerage firm where he met Bob Zoellner, a successful trader who later became Schwartz's mentor.

At the time, Schwartz was also playing the markets. However, for all the time he was doing so, he had been continuously losing money. It was a mystery. He would tell himself that he was smart, that he had a good education, and that he had been a winner for most of his life, so why couldn't he make money on the markets?

The Big Turnaround

Then came a big turnaround. After taking various positions with Mesa stock, and at one time several thousand dollars down, with encouragement from Bob Zoellner, he made the perfect call. He ended up around $8,000 in profit.

His good fortune and hard work continued. Through them, he was able to accumulate $100,000, at that time a lot of money which would be worth around $400,000 today. That was his pivotal moment. He decided to quit his day job and go out on his own to become a trader. His next step was to buy a seat on the American Stock Exchange which took most of his capital leaving him with just $20,000. To bolster his working capital, he borrowed an additional $50,000 from his family, but he vowed to himself he would never touch it; the money was there just for extra security.

Making the Big Bucks

It didn't start well. In his first few hours at the exchange, Schwartz lost 10% of his working capital. His strategy was to go for many small profits rather than big wins; thus, he could manage with a relatively low stake. He quickly improved his form and started making the "big bucks." After four months he was $100,000 in profit, and in the following year, he made $600,000.

Things then went from good to even better, and from 1981 he could count on making at least $1 million a year. That isn't to say there weren't tricky moments. From time to time, Schwartz did encounter losing streaks, but he knew from experience how to handle them.

In addition to trading on the floor, he began trading futures, which proved to be another successful venture. Eventually, he had amassed a substantial fortune of over $20 million.

Later Life – Slowing Down

Now 73 years old, Marty Schwartz is also a successful racehorse owner and today leads a quiet life as a financial advisor investing other people's money. He says that the primary reason he has become so successful is hard work, and he describes himself as a gambler with a good feel for numbers. He says that he hates losing. He describes himself as a "scalper" in that he is always in and out quickly, usually five minutes and never longer than a couple of hours.

He believes that separating your ego from your trading is vital. "The sole objective of trading," he says "is not to prove you're right, but to hear the cash register ring".

What can you learn from Marty Schwartz?

Much like Lawrie Inman, Schwartz says he focuses on small, regular gains rather than shooting for massive wins. He even describes himself as a scalper, which is similar to Inman's strategy of just looking for one pip of movement on occasion. Again, the skill is in predicting the correct direction of the market but then making that pay off involves being prepared to looking for small profits and banking them rather than waiting for an outsize win and having the market move against you. So as traders we should be prepared to set up positions with tight take profit targets and stop losses and focus on getting the direction of the market right.

Dr Alexander Elder

Trading For a Living

Alexander Elder, or rather Dr Alexander Elder as he has a PhD in psychology, has had an exciting, some would say extraordinary, life. Born in Leningrad, and growing up in Estonia, he entered medical school at what seems to be a remarkably tender age of sixteen. He became a ship's doctor, but keen to leave communism behind and pursue the great American dream, he jumped ship in Africa and applied for political asylum in the United States.

The US was pleased to take him on board, and he took up a role as a psychiatrist in New York while teaching at Columbia University. He was, however, to later apply his deep understanding of human psychology to trading, where it paid significant rewards. Today he has a lofty reputation as one of the world's leading trading experts. He has also authored numerous books on the subject and teachers trading to young aspiring traders.

Between 1993 and 2011, Elder published six books:

- Trading for a Living - Psychology, Trading Tactics, Money Management published in 1993 and translated into twelve languages
- Making Money on Russia's Exploding Financial Frontier (1999)
- Come into My Trading Room A Complete Guide to Trading (2002)
- Straying From The Flock - Travels in New Zealand (2005)
- Visits to Sixteen Trading Rooms (2006)
- The New Sell and Sell Short: How to Take Profits, Cutting Losses, and Benefit from Price Declines (2011)

In his introduction to his most recent book, "Sell and Sell Short" Alexander explains that "Amateurs don't know how to short and are afraid of it, but professionals love shorting and profit from declines."

One of his favourite mantras is that the way to make a profit is to have a slight edge and a lot of discipline. Alexander's edge is an awareness of the ever-changing gap between "price" and "value". The time to buy is when the value is rising and the time to sell short is when the price is too far above the value.

He believes that the three fundamental questions we must answer are:

1. How to define value
2. How to track its changes
3. How to measure the distance between price and value

And in the remaining chapters of Sell and Sell Short, he describes how to do precisely that.

Alexander Elder's triple screen trading system

One of Elder's essential contributions to effective trading is his triple screen trading system. No single indicator, he believes, can consistently analyse the complexity of financial markets. Different indicators sometimes provide contradictory results.

The triple screen system combines different types of indicators, including trend indicators and oscillators:

- **Screen One** – a trend indicator using a time frame ten times greater than the chart you will use to trade: **the tide**. The rule is to only trade in the direction of the wave. If it is an uptrend, you can only buy, and if it is a downtrend, you can only sell.

- **Screen Two** – an oscillator to your trading chart, which identifies a market moving in the opposite direction to the tide: **the wave**. When a wave is moving in the opposite direction to the tide, an entry point is indicated.

- **Screen Three** – searches for short term deviations in the direction of the tide using a trailing stop: **the ripple**. When both screen one and screen two agree, for instance, if the tide is an upward trend and the wave is moving in the opposite direction so that a buy is indicted, screen three is used to identify the exact entry point. The trailing stop is set one tick below (for shorting) or above (for buying) the high of the previous day.

Typically the system would use a weekly chart for the tide and a daily chart for the wave. While not foolproof (but then no trading is infallible), Alexander Elder's triple screen trading system is both effective and easy to use.

"Rags to Riches"

Many traders have learned their skills from the teachings of Dr Alexander Elder, either from his books, online lessons, or real-time training camps and conferences. He has also amassed a small fortune with a net worth well over £1 million. His is a *"rags to riches"* story. But he claims the market is full of them, though he cautions *"Most traders then give up their wins back to the market. The market is full of rags to riches to rags stories. The mark of a successful trader is the ability to accumulate."*

What can you learn from Dr Alexander Elder?

There are a few points that we can learn from Dr Elder's teachings:

- Be prepared to short the market and not just go long – lots of amateur traders are afraid to go short but there are times to do so.
- Understanding the relationship between price and value – the time to buy is when the value is rising and the time to sell short is when the price is too far above the value.
- There's his triple-indicator system which if you take the time to learn could be a useful strategy to have in your arsenal.
- And finally be careful not to give your wins back to the market – don't get exuberant and carried away after a few wins. Maintain your discipline and be prepared to step away and assess for a period.

Bob Zoellner

Architect of Merger Arbitrage

Who was Bob Zoellner? His friends called him "Z" as in the American "Zee", though he would also answer to Bob. When he died on the day before Christmas Eve in 2014 aged 82, his wife Victoria Zoellner picked up the gauntlet to chair Alpine Associates, a $1.7 billion hedge fund. Victoria, whose net worth is over half a billion dollars, is considered to be one of America's richest self-made women.

But back to Zee, who in his day was considered to be one of the top investment gurus in the world. To quote Don Stone, once the Vice Chairman of the New York Stock Exchange,

> Bob was a visionary leader who treasured camaraderie above all things. He was a generous mentor, a fiercely loyal friend, husband and father, and an inspiration to those around him through his irrepressible optimism and generosity of spirit. He will be greatly missed.

Early Years

Bob Zoellner's early calling was in science and engineering. He grew up in New Jersey and subsequently graduated in Physics and Electrical Engineering. While at university he was an accomplished sportsman and captained the university ice hockey team. His other extracurricular interest was the Air Force Reserve Officers' Training Corps, and on leaving university in 1954, he served with the US Air Force for two years.

It was while serving in the Air Force that Bob discovered his passion for trading on the stock market. He was based on Long Island, New York, and his commanding officer would send him on frequent errands to report on prices of various stocks which he would collect from Edwards & Hanly, a local brokerage. His curiosity raised, Bob began to study price movements carefully.

Analyzing Markets

Well versed in statistics which he picked up at university, he began to apply them to stock prices. He soon discovered that the market was not driven entirely by numbers; human emotions also played a significant role. Armed with this knowledge, he was able to gain valuable insights into price fluctuations and profit from them.

An area that suited the way he analysed markets was how company merger announcements affected share prices. He honed in on a hedge fund strategy called merger arbitrage, which we outline below.

In 1958 Bob joined Edwards & Hanly where he remained until 1975, from 1964 as a managing partner. The following year, with his wife Vickie, he founded Alpine Associates, an investment firm specialising in merger arbitrage. The firm went from strength to strength, and Bob claims he never had a losing year. At the time of his death, the firm owned assets worth $1.7 billion.

Philatelist

Amongst his various interests, Bab had been a keen stamp collector. His ambition had been to collect every American stamp that was ever issued. It was a huge task, and an expensive one too; some USA stamps are scarce. To almost complete his collection, in 1986 he purchased the rarest USA stamp, a 1 cent Benjamin Franklin Z-grill for $418,000. Twelve years later he sold it for $935,000.

Philanthropist

Bob and his wife Vickie were known for their philanthropy. They established a world-class performing arts centre at Lehigh University (the Zoellner Arts Center); they were sponsors of the New York Botanical Garden; the Hope & Heroes Children's Cancer Fund; and several other charitable organisations.

Merger arbitrage

Merger arbitrage is a medium risk strategy for making a profit out of mergers between quoted companies. It involves purchasing and selling stocks simultaneously in the two merging companies. The usual approach is to go long on the company being acquired (the target) and to sell short on the acquiring company.

When a merger is announced, the share price of the acquiring company usually falls, and that of the target rises. However, the price that the acquiring company must pay is generally higher than the quoted share price. It is in the difference between the two prices where the trader makes a profit.

What can you learn from Bob Zoellner?

There are two main points we can pick up from reading about Bob Zoellner:

- Firstly he talks about the role that emotion plays in the market and not just plain numbers and statistics. This is an important point and is something you see all the time, particularly during market crashes when people panic. Many so-called experts however talk as if the market behaves completely rationally all the time, which clearly is not the case. Being aware of the human-driven nature of the market can allow you to profit from irrational moves that tend to correct themselves over time.

- Secondly there is the more specific strategy of merger arbitrage. This is more of a technique for specialists and these days there might not be quite the same potential to profit from it as in Zoellner's day as most loopholes like this have been plugged. However, being on the lookout for potential merger targets can be an interesting strategy if you are content the company has strong fundamentals and would be happy to hold the stock in any event.

Anton Kreil

Millionaire Globetrotter

Who is Anton Kreil? According to his website, he believes that "the most important business card is the one you put in the ATM." Enough said. But that's just one of his aphorisms; he has many more. We will mention some of them later.

Anton began trading when he was just sixteen years old. By the time he was twenty he had amassed a tidy portfolio, and after leaving university, he caught the attention of Goldman Sachs. He left London to begin trading on Wall Street and subsequently returned to London to trade on the London based Pan European Equities desk. The years flew by rapidly. By the time he was twenty-seven, he had become Vice President of JP Morgan European Equities and the following year he decided to retire from Investment Banking just before the 2007 Global Financial Crisis. Anton spent the next year globetrotting, returning in 2008 for the filming of the BBC television programme "Million Dollar Traders". Following the publicity he gained from the show, he established the Institute of Trading and Portfolio Management, an organisation dedicated to teaching would-be traders how to trade like professionals.

Another of his famous aphorisms that more or less spells out his philosophy is *"Put your card in the ATM and look at the number that looks back at you. That will tell you whether you're right or wrong. There's only one way to keep score."*

Anton Kreil's secrets of success

So what is the secret to Anton Kreil's outstanding success? He would argue that the best way to find out is to sign up for one of his courses, but in his video "10 Secrets to Achieve Financial Success" he provides some interesting insights. To pick out just a few of them:

"Respect Money and be Indifferent towards it."

One of the most important things, he says, is the way people view money. One of the problems is that they don't understand the function of money and why it exists. Money, he says, makes society work. There is nothing wrong with wanting more of it as long as you don't harm other people on the way. Capital markets are the only way to keep society functioning.

"Go Travelling, Get Perspective, Get your Dream Life"

Freedom, Anton says, is the most valuable asset you will ever have. Travelling allows you to appreciate that. By travelling, he means going on the road and disappearing for a year or two. Travel the world and see everything the world has to offer, he advises. He believes that every young person should do so as soon as they can.

"Ditch the Smart Phone"

Anton uses a basic mobile phone that stores 50 numbers, can text, make and receive calls and nothing else. The smartphone, he says, is a perfect illustration of how people fail to value their time. Since he ditched his smartphone, he has been, he claims, more efficient than ever before. He schedules just 30 minutes every few days to deal with the countless emails he receives, most of which he never opens; to do so would be a waste of time. Smartphones are unsociable and a total time waster. "Ditch your smartphone and make time to get rich".

What can you learn from Anton Kreil?

Mr Kreil's sentiments are more philosophical rather than focused on the specifics of trading, but certainly his recommendations to gain a broader perspective on life are interesting. One of the greatest failings of traders is to over-trade and become overwhelmed by all the information and tools available, leading to losing your focus. Keeping perspective, taking breaks, travelling and having a clear head are vital to successful trading.

Money Management

The Importance of Looking After Your Money

“Becoming wealthy is not a matter of how much you earn, who your parents are, or what you do. It is a matter of managing your money properly.” - Noel Whittaker

You can have great knowledge of the markets and a good trading strategy but still fail to make money if you don’t manage your money properly. In fact it is probably fair to say more traders lose money because of a failure to manage their funds properly rather than due to their actual trading methods.

This is pretty tragic if we’re honest about it. It’s like people are getting in their own way and stopping themselves from being successful traders. There are natural human reasons for this of course: our emotions get the better of us and we make mistakes.

It doesn’t have to be that way though and traders could improve their results substantially if they just followed some simple money management rules.

Let’s take a look at these and how they are fundamental to success in trading.

Bank Size and Staking

Before starting to trade it is essential to allocate a fixed amount to trade with. This should be an amount you are willing to lose all of - although hopefully that will never be the case of course! But it should be an amount you are willing to lose because there is a chance it could happen.

How much this is will vary from person to person depending on their circumstances. For some people it might be just $1,000 whilst for others it could be $10,000 or even $100,000. The important thing is the amount you select to put towards your trading is an amount you could afford to lose.

Once you have selected that amount, you might want to allocate portions of it to different strategies.

Let's say for instance you had $10,000. You might have five different strategies you want to pursue – perhaps a couple of forex robots, a stock trading system, some signals you follow and then a gold trading strategy.

You could split that $10,000 into five separate starting banks of $2,000 allocated to each strategy.

Once you have allocated a starting bank to each strategy, it is advisable to only risk a fixed percentage of that bank on each trade.

So let's say for example you have allocated $2,000 to your gold trading strategy. It can then be a good idea to risk 2% of those funds on each trade, which would be $40.

If the bank grows, then so will the amount you risk, but if it is always 2% then you won't fall foul of risking different amounts depending on what mood you're in, what whim takes you or how strongly you feel about a trade. The amount will be fixed at 2% and that will help you manage your money much more effectively.

One of the biggest mistakes traders make is risking wildly different amounts on trades depending on their mood or if they have won or lost previous trades. Sometimes if they have lost a few trades in a row they try and "make it all back" on the next trade and risk far more than they should. Other times things may be going great after a few winning trades so they get carried away and risk too much on the next one.

Either way risking too much and variable amounts is not advisable. Stick to a fixed bank and staking plan and you will be in much better stead than the trader with no money management plan.

Understanding Leverage

Leverage used correctly is a useful tool. With it, you can make trades that allow you to profit on minimal changes in asset prices. You can similarly lose money quickly. However, leverage does provide many more options. Failing to understand how and when to use it is a big mistake and one that new traders frequently make. The main reason why novice traders get into trouble is that they are too highly leveraged.

This can have catastrophic consequences, as in the case of the Swiss Franc decoupling from the Euro in 2015 when a number of traders were far too leveraged and the huge move in the currency pair led to many of them – and even some brokers – going bankrupt. In effect people were risking tens or even hundreds of times more money than they could actually afford to lose.

In 2018 The European Securities and Markets Authority (ESMA) introduced new rules on leverage and margins to protect inexperienced traders from making significant losses. These rules were also adopted by the FCA in the UK.

The rules are probably a good idea though there are many dissenters amongst the spread betting community in the EU and UK who are affected by them. The new regulations rules limit leverage to between 30:1 and 2:1 depending on the instrument. Previously they were as high as 300:1. However, if you are an experienced trader, you can apply for professional status, which, if granted, removes the limits.

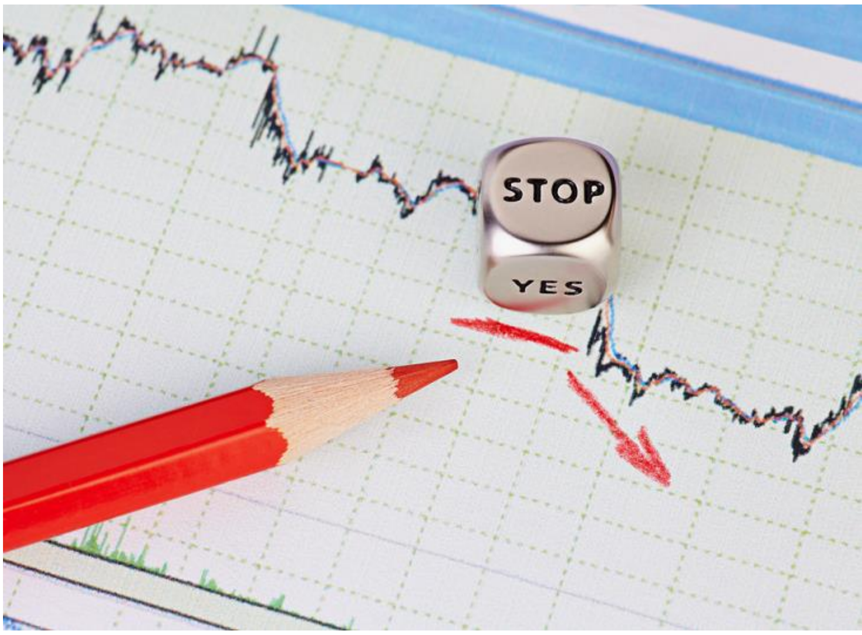
The key to using leverage is to only use an amount you can truly afford to lose if there was a big market move against you such as the Swiss Franc-Euro incident. Remember what leverage actually is – a broker lending you money to trade with. Make sure you can afford to pay them back.

The Importance of Stop-Losses

A stop-loss order is a risk management tool you can use to limit potential losses. Standard stop-loss orders are free, though a variant known as a guaranteed stop-loss order is a paid-for service that offers an extra layer of protection. Here we will look at both of these along with their pros and cons.

Stop-Loss Orders

A stop-loss order tells your broker to close your position once it reaches a specified price. You use it to limit your potential losses should the market move in the wrong direction. For instance, if you set a stop-loss order 100 pips lower than the price you bought at, you will limit your potential loss to 100 pips.



There is no charge for placing a stop-loss order, so apart from certain exceptions, there is no reason for not doing so. Try to think of it as free insurance.

The additional advantage is that you make your decisions in advance and so immediate circumstances and emotions do not alter them.

Importantly they also steer you clear of the sunk cost fallacy where you might argue with yourself that you have already seen a loss (your sunk cost) so you might as well hang on in a little longer to see what happens. That is almost always a wrong decision as it usually leads to increased losses.

As William O'Neil said:

"Letting losses run is the most serious mistake made by most investors."

Setting a stop loss will prevent you from making this mistake.

Finding You the Best Trading Systems

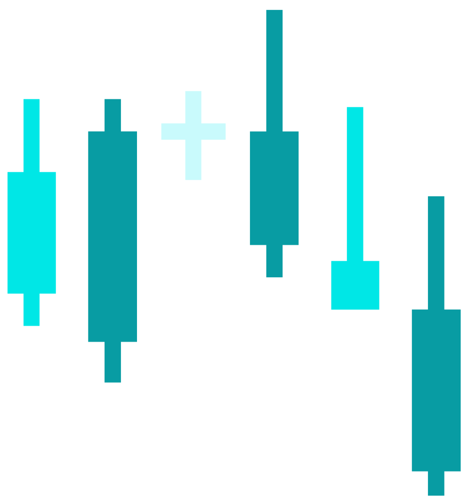
OK so now we've gone through the importance of money management, let's get onto the business of trading.

Here at Trade Stocks and Forex our aim is find you the best trading systems online. To do that we test a wide range of systems across a variety of platforms. Our ongoing tests are available to view at www.tradestocksandforex.com/current-reviews/

The systems we test can be split into the following categories:

Stock Tips

Perhaps the most traditional investment service of all, people have been providing stock tips for centuries and the practice will probably never go out of fashion. A simple method that just about everyone can understand, it simply involves an expert providing recommendations of companies to buy stocks (or shares) in.



From a newspaper columnist providing their "stock tip of the week" to more sophisticated services crunching data and using algorithms, stock tips are fairly ubiquitous these days and we have probably all seen them – and maybe followed one or two recommendations, even if just from a friend or family member – in our time. However, at their best stock tips can be immensely powerful, with services like the Motley Fool delivering excellent returns to their members over the last twenty years or so.

Signals

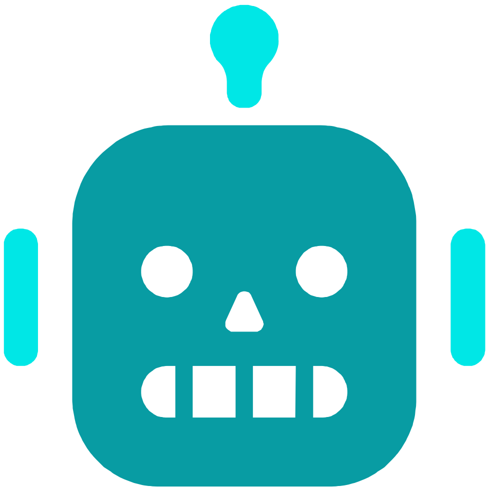
Very similar to stock tips, but "signals" is the term normally used to refer to tips in the world of forex. Signals are also available for trading other instruments such as gold and oil aswell.

A trader providing signals will usually give an entry price, together with a target price and stop loss on a given instrument. Some signals are based on strict technical indicators whilst others are more of a combination of factors utilised by a signal provider such as fundamentals, technical indicators and sentiment.

Following signals – or tips for that matter – takes away most of the hard work on the part of the trader, who is relying on the signal provider to put in the time and effort to study the charts, candlesticks, price, indicators, fundamentals and so on, leaving the person following the signal to just execute the trade. These days signals are often provided via the Telegram app.

Robots/EAs

Forex robots, also known as Expert Advisors, are programmes that trade automatically on your computer according to pre-defined settings. They are increasingly popular these days as they can be run in the background, leaving you to get on with your day and not having to worry about following the movement of the markets all the time or whether you might miss a signal. Most forex robots are set up via the MT4 (or MT5) platform and it is normally best to use a VPS so you don't need to have your computer running day and night.



Managed Accounts

A managed account (MA) is where you give your money to an investment service to trade on your behalf. Some of these services will use robots and automated software, whilst others will trade their own strategies manually. MAs are normally regulated – or certainly should be so be wary of any service that isn't regulated by a recognised authority. Often MAs have high minimum investment amounts (e.g. $10,000), so aren't suitable for everyone and many people prefer managing their trading themselves.

Social Traders/Copy Traders

Increasingly common these days is copy trading, or social trading. Popularized by services like Etoro, copy-trading involves automatically copying the trades of another individual, in some cases a professional trader. Sometimes this is done directly on the platform – as in the case of Etoro and Naga Trader – whilst in others it is done via a broker (e.g. Zulu Trade, CopyFX).

Copy Trading platforms tend to vary wildly in how much risk they allow the copier to take, with platforms like Etoro generally exposing copiers to a low level of risk whilst platforms like Naga leave it up to the copier, who can grossly overexpose themselves to risk without fully understanding the process.

Passive income

More of a general term covering a number of the tools above such as forex robots, managed accounts and copy trading but also including everything from property investing platforms to cryptocurrency projects.

Essentially any service that offers the potential of regular income with minimal effort on the part of the investor, other than putting their money in and choosing their settings, can be seen as passive income. Although it can be an alluring idea, achieving reliable, significant passive income is a challenge.

Choosing a strategy

So which one of the above types of trading service is best? Well that depends on a number of factors and how you approach your trading. Each can have their place within a trader's portfolio and the more important question is whether a service makes a consistent profit rather than the particular method used to deliver the trades.

We have encountered good services in all of the above categories and are happy to utilize them all in our trading. A full list of the systems that have passed a live trial on our site can be found at www.tradestocksandforex.com/winning-trading-systems/

We imagine there will be innovation in the coming years resulting in new types of trading service, so it's always a good idea to be open-minded and watch out for the latest developments.

Where to Place Your Trades

Taking a Look at Forex Brokers

So far we have taken a look at some of the best traders in the world and what we can learn from them, explored the importance of money management and set out the different categories of trading system.

So we should be well placed to commence our trading – but where do we actually place our trades? Or in other words, which broker should we use?

It might seem like a fairly innocuous question and not of much importance, but actually selecting the right broker can make a big difference to your results over the long term. Not all brokers are created equally as it were and some of them engage in downright shady tactics, which we will explore further below.

Before getting on that though, let's take a look at the key differences between brokers and why these are important.

Trust

Perhaps the most crucial issue in choosing a broker is to ensure that the broker you use is a trusted and established name and is regulated by a major authority. There have been numerous scandals of disreputable brokers going bust or disappearing with clients' funds in recent years, which is very troubling and does a lot of damage to the industry as a whole. Binary options brokers were particularly prone to fraud and scandal, but thankfully now binary options trading has been banned in the UK and EU.

Stopping brokers from engaging in fraud, acting improperly or against their clients' interests is the job of regulators. For a broker to be allowed to operate in a certain jurisdiction, it must comply with the regulator's standards for that region. If it does so then a broker is given a licence. The regulator's job is to ensure that the broker continues to follow the rules and acts in a proper fashion.

As you can imagine though some regulators are much stricter than others. The FCA in the UK and the ESMA in the EU are seen as the "gold standard" of regulation and expect brokers to comply with strict regulations in their jurisdictions, as does the SEC in the USA. Be more suspicious of regulators in offshore jurisdictions. Some of these regulators do very little "regulating" at all and brokers can be given a licence with little or no checks carried out.

Trusted names like IG Index have been around for many years, are highly regulated and being a publicly-traded company are subject to all the scrutiny and auditing requirements that comes with being listed on the stock market. Be more suspicious of newer brokers who either don't have a licence or are licenced in a "light-touch" offshore jurisdiction.

Spreads

One of the most fundamental issues when assessing a broker is to look at their spreads. This is the difference between the buy and sell prices on a given instrument. The difference between a broker offering a 2 pip spread to one offering a 4 pip spread might not sound like much in theory, but over time and hundreds of trades these differences really add up.

The issue with selecting a broker with a tight spread however is that it can be very difficult to find out what spread you will actually get once you are trading. Many brokers advertise tight spreads, but those may only be available at certain times or on certain accounts. Or they will have tight spreads on one or two key forex pairs like the EUR/USD and GBP/USD but wide spreads on other pairs. And some brokers offer tight spreads but then make up for it by charging high commissions on trades.

So all in all it is a bit of a minefield when it comes to selecting a broker with tight spreads. This is compounded by the fact that many "broker comparison sites" make commissions from recommending particular brokers over others so often don't tell the whole story – they are really just glorified advertising sites. Or they haven't done any real research and testing for themselves of the spreads actually available, but instead just repeat what the broker says, which as we say can be ambiguous at best. And when you compare a few of these sites, they all say something different!

Where does all this leave us then on the issue of spreads? We have yet to see any real-time, independent, thorough testing of brokers in terms of their spreads, which makes giving a truly objective view rather difficult.

However, we have tried a large number of forex brokers over the years and there a couple we have found to generally offer tight spreads on a wide range of instruments: IC Markets and Easy Markets. If you have found a broker with very low spreads, please let us know as we are always interested in comparing brokers from this perspective.

Slippage

Slippage is what happens when the price you obtain on a trade is different from the one you were quoted. This can happen if the market moves between you clicking the button and the trade being executed, which is understandable.

However, nefarious brokers engage in underhand tactics to manipulate prices and give their clients a bad deal. If you are regularly seeing slippage happen to your orders, it is a bad sign and you should consider switching brokers.

Beware Unscrupulous Brokers

The other danger to be aware of is that brokers have been known to engage in price manipulation to take out the stop-losses of their clients. This is more likely to be the case where the broker actively takes positions in opposition to their clients, profiting when the client loses money on a trade.

On the MT4 trading platform, some forex robots claim to have a “stealth mode” whereby they use stop losses but don’t reveal them to the broker, to prevent them from engaging in price manipulation. If something like this actually works then it is certainly a good innovation.

On the whole though, it is worth looking for reputable brokers who do not trade against their clients’ positions. This will reduce the chance that they will engage in price manipulation against you. If they aren’t trading against you then there wouldn’t really be a reason to close out your stop losses unnecessarily.

One of the most reputable brokers and one who supposedly don’t trade against their clients is IG Index. It is worth going to a reputable broker as the differences on these kinds of issues can really add up over time.

Further Reading

We hope you have enjoyed this guide and found it useful. Keep up to date with our reviews of trading systems at www.tradestocksfx.com

If you are interested in learning more about trading and investing, we can recommend the following books:-

Investing and Stocks

One Up On Wall Street – Peter Lynch

The Motley Fool Million Dollar Portfolio – David Gardner, Tom Gardner et al.

The Motley Fool Investment Guide: How the Fools Beat Wall Street's Wise Men and How You Can Too – Tom Gardner

The Intelligent Investor – Benjamin Graham

100 Baggers: Stocks That Return 100-To-1 and How to Find Them – Christopher W. Mayer

The Naked Trader – Robbie Burns

Forex Trading

Currency Trading for Dummies

Forex Trading: The Basics Explained in Simple Terms – Jim Brown

Pit Bull: Lessons from Wall Street's Champion Day Trader – Martin Schwartz

Trading in the Zone: Master the Market with Confidence, Discipline, and a Winning Attitude – Mark Douglas

A Complete Guide To Volume Price Analysis – Anna Coulling

Biography/Entertainment

Bets and the City: Sally Nicoll's Spread Betting Diary – Sally Nicoll

The Snowball: Warren Buffett and the Business of Life – Alice Schroeder