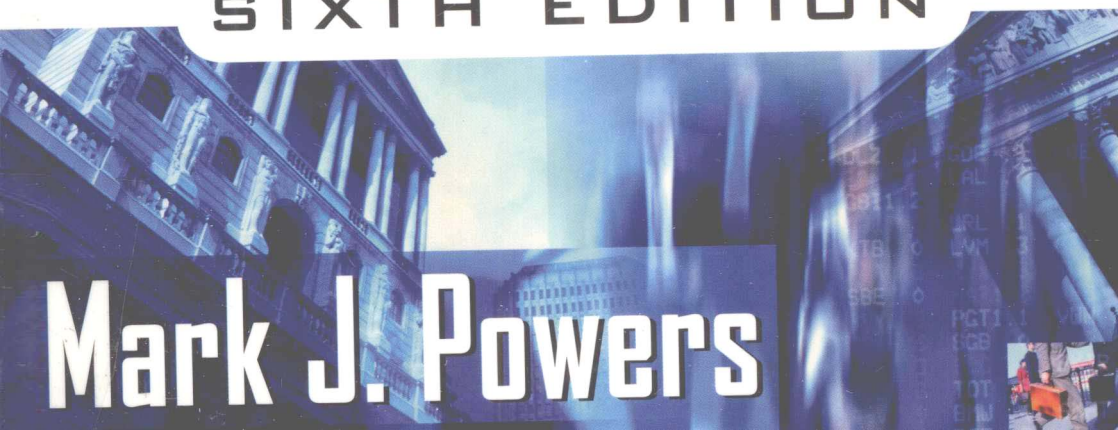




Starting Out in FUTURES TRADING

SIXTH EDITION



Mark J. Powers

Starting Out in Futures Trading

Updated and Expanded

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MARK J. POWERS

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Throughout the book the author is using “he” but it is meant to imply a neutrality in the sexual context and should be read as “he or she.”

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MARK J. POWERS

Dedicated to
Jo,
the most understanding and loving wife.

Introduction

STOCK VERSUS COMMODITIES

The late Vince Lombardi, legendary coach of the Green Bay Packers football team during their earlier glory years of the 1960s and early 1970s, once said, “Luck is what happens when preparation meets opportunity.”

Lombardi was saying that, in the long run, people who are successful make their own luck by being prepared to take advantage of favorable circumstances . . . and those who rely on “chance luck” have very little hope of continued success.

The purpose of this book is to introduce the beginner to the world of commodity futures trading, including the electronic trading aspects, and to aid in preparing one to take advantage of favorable circumstances that arise in the trading of commodity futures. Electronic tradings’ greatest impact is on the efficiency in the method of trading and its ability to allow the trader nearly instantaneous ability to effectuate a trade. You will still be required to do the same analyses and interpretation of data, though more of it, and to decide whether you are a buyer, a seller,

a spreader, and so on. So, the bulk of this book will concentrate on helping you to understand the process of futures trading, decide whether futures trading is for you, and, if so, help you to create a trading plan and execute it.

This book will offer no sure-fire methods for making money, nor will it predict the prices of any commodity. It makes no promises to turn you into a successful trader, because a successful trader needs more than knowledge about the market. It will, however, provide you with an understanding of many of the basic aspects of futures trading—knowledge without which only “chance luck” can work in your favor.

The word *commodity* is used herein for the most part interchangeably with the word *futures*. Futures contracts are now traded on many goods and services that are not strictly commodities in the traditional sense. The concepts, ideas, and descriptions in this book are applicable to futures whether the underlying “commodity” is agricultural, industrial, financial, foreign, or domestic.

A WORD ABOUT YOUR SUITABILITY FOR TRADING

Commodity futures *trading* is not for everybody. Commodity futures investments managed by others, however, have a much broader suitability to many investors.

For example, you should not trade or invest unless you have money you and your dependents can afford to lose. If you are in the proverbial “orphan or widow” class, do not trade, and select your managed futures investments carefully. Some studies have shown that the probabilities are quite high that after a customer pays his commissions and calculates the interest income lost on money deposited with his broker, he will not make money.

You should not trade unless you are psychologically suited to taking large risks. Most commodity futures transactions involve a great deal of risk. Unless you are certain that you can accept that risk and still sleep at night without worry, do not trade.

You should not trade unless you are certain that you can control your ego and your greed. High risk and high profit potential go together. If you cannot discipline yourself well enough to admit a mistake on a trade and close it out at a small loss or to be satisfied with a moderate gain on a winning trade, do not trade.

If you tend to live on hopes and dreams instead of on the realities of hard facts, do not trade.

If you think you can make money trading futures without doing some hard work, do not trade. Making money consistently is not easy in any line of work. And it is especially hard in futures trading.

If after reading the above you have already concluded that *trading* is not for you, don't give up. Read on. Investing in a professionally managed futures prod-

uct, in which you don't have to do the work, may suit you fine. In that case, when you have finished with this chapter, go directly to Chapter 4, "Managed Futures—A Good Alternative."

As you read the rest of this book, keep these points in mind and try to determine your suitability for trading.

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