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*The document has been prepared to introduce some of the key terms and concepts associated with futures and futures options trading. Investors are reminded that the risk of loss from trading futures or futures options can be substantial and these products may not be for everyone. Investors also need to consider the level of risk they are willing to accept and the suitability of any investment before acquiring a position. The following information is not to be construed as an offer to sell or a solicitation or an offer to buy any futures or futures options. It is simply provided to you as is, for general use and information purposes only by Union Securities Ltd. Please contact your USL broker for further assistance.*

## **MANAGING YOUR RISK GUIDELINES FOR SPECULATORS**

Speculators are participants with risk capital who take a position in the market based on an educated guess or by utilizing a trading system. Unlike other types of investments such as stocks and bonds, an investor who trades futures doesn't acquire anything tangible but is simply assuming an obligation to make or take delivery at some point in the future. If an investor believes a futures contract will rise, they will buy or "go long" a futures contract and hope to profit from a price increase by offsetting the position at a later date. Conversely, if they thought prices were going lower they would sell or "go short" at today's price and hope to buy back or offset the position at a lower price.

Futures trading is a zero-sum game that requires extensive research, knowledge of market trends and a disciplined approach to be successful. Experienced traders recognize that "losing trades" are a natural part of trading and learn to quickly cut losses on trades that go against their position. All too often we hear traders referring to their percentage of winning trades. This number is meaningless, of greater importance, is the amount by which the funds earned on winning trades exceed those from losing trades. From a risk perspective many successful traders limit the level of drawdown in their account. Furthermore, many traders will manage their portfolio by monitoring the maximum drawdown levels for a series of trades and establishing parameters of maximum drawdown over a defined period of time.

Probably the most important aspect of trading is knowing when and how to execute a trade. Below are some rules to assist the trader with limiting their losses and enhancing their gains:

- 1) Identify if a position is a short or long-term trade, long-term trades may require more risk capital than short term trades.

- 2) Determine the volatility of the market; highly volatile markets should provide higher reward levels but may require more risk capital.
- 3) “The trend is your friend”, a three-point trend drawn from absolute highs (declining trend) or lows (rising trend) is generally considered as a relevant trend. Identify support and resistance levels and pay particular attention to market momentum using moving averages and other highly respected indicators.
- 4) Establish an entry and exit level, and be prepared to use market orders when executing trades.
- 5) Avoid establishing positions just ahead of the release of any major report and be leery of any market that fails to react to the release of what is considered overly bullish or bearish news.
- 6) Always use properly placed trailing stop-loss orders and be prepared to be stopped out, because eventually you will be!
- 7) If trading against a trend, use caution. Picking tops or bottoms in trending markets can be dangerous. Consider risk-limited alternatives such as futures options if you have to trade against a trend.
- 8) Small positions are just as important as large positions and should be treated equally so.
- 9) Take regular profits, it doesn't hurt to leave some profit on the table and try not to be concerned with commissions, as they represent a small part of any move in the market.
- 10) Do a critique on every trade; even losing trades may hold a valuable lesson.
- 11) When a losing streak occurs, continue to study the market but step aside from trading until you feel you are back in sync with market activity.
- 12) Trust your instincts, learn to go with your “gut” feel!