THE ALPHA TRADER

MASTERING PROP FIRM TRADING

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SECTION 1

GETTING STARTED WITH PROP FIRMS

CHAPTER 1

WHY PROP FIRMS?

1.1 Introduction

Prop firms, or proprietary trading firms, have emerged as a revolutionary model in the financial trading world, opening doors for aspiring traders who previously lacked the capital to make a significant impact. In this chapter, we'll explore why prop firms have become a popular choice for traders, the opportunities they provide, and how they compare to self-funded trading.

1.2 The Rise of Prop Firms in Trading

Imagine this scenario: A talented trader has spent years honing their skills on a demo account, achieving consistent profits. However, they lack the $50,000 capital needed to translate that skill into a meaningful income. For years, such traders were stuck—either saving for years to build their trading fund or risking small capital with limited growth potential.

Enter prop firms. These firms stepped in to bridge the gap by offering access to significant trading capital in exchange for a performance-based evaluation and a share of the profits. For example, firms like FundingPips began offering traders opportunities to manage accounts ranging from $5,000 to $100,000 after completing their evaluation challenges.

Prop firms gained traction as they eliminated the high barriers to entry, allowing traders to scale their skills without taking on personal financial risks.

1.3 How Prop Firms Democratize Access to Capital

Consider Rahul, an Indian trader who started with only ₹10,000. By joining a prop firm, he passed an evaluation to secure a $50,000 account. Within a month, he made $5,000 in profits, keeping $4,000 (after the firm's 20% split). Rahul's story is not unique—prop firms have created pathways for traders worldwide, regardless of their socioeconomic background, to trade at a professional level.

Unlike traditional institutional trading roles, which require years of experience and educational qualifications, prop firms evaluate traders purely on skill, consistency, and discipline. This meritocratic model levels the playing field without any degree or qualification as long as you can prove your trading acumen.

1.4 Advantages Over Trading Your Own Funds

Trading with personal funds is often fraught with emotional challenges. Losing money you've saved over months or years can lead to impulsive decisions and poor risk management. Prop firms mitigate this issue by enabling traders to trade with institutional funds, significantly reducing emotional pressure. Moreover, the ability to scale is a major advantage.

For example, a prop firm may allow a trader to double their account size every three months if they consistently achieve profitability while maintaining strict risk management. This scaling model is difficult to achieve when trading with personal funds, imagine extra capital waiting for you if you just choose to perform well.

In summary, prop firms have not only democratized trading but have also created a sustainable model for traders to achieve their goals without risking their life savings or taking any big risks or going into debt.

CHAPTER 2

UNDERSTANDING PROP FIRMS

2.1 Introduction

Before diving into the nuances of trading with a prop firm, it's essential to understand what they are and how they operate. This chapter we will into the business model of prop firms, their motivations, and how traders fit into the equation.

A prop firm is a company that funds traders to execute trades on its behalf using its capital. These firms are not philanthropic organizations; they are businesses that seek to profit by identifying skilled traders who can consistently generate returns.

Here's how it works:

1. A trader signs up for an evaluation challenge, often for a fee ranging from $50 to $600, depending on the account size they aim to manage.
2. The trader must meet specific performance targets while adhering to strict rules, such as drawdown limits and risk management guidelines.
3. Upon passing, the trader is given access to a funded account, where they can trade and earn a share of the profits, typically 70% to 90%.

2.2 How do Prop Firms Make Money?

Prop firms earn revenue in two primary ways:

1. Evaluation Fees: These fees are the firm's upfront revenue. Many traders fail the evaluation due to poor risk management or emotional trading, meaning the firm incurs no further costs while keeping the fees. For example, a firm with 10,000 traders paying $200 each generates $2 million upfront.
2. Profit Sharing: For successful traders, prop firms earn a share of the profits. While this may seem like a small percentage (10%-30%), it can scale significantly when the firm backs multiple profitable traders.

But the truth is that most prop firms Operate on the B-Book Model,

This Model basically means that a prop firm will make money purely through the evaluation fees and there would be no actual trading going on at the back end,

Example : Let us say a prop firm sells a $100 account to 10,000 traders that is a revenue of $1 million dollars, now as everybody knows that 90% traders lose, this means 9,000 traders will be failing their evaluation and if you take out the cost of tech and marketing that would leave a prop firm with roughly around 40-50% net profit margin,

But what about the 1,000 traders that cleared the evaluation?

Well the truth is that out of the 1,000 traders that passed, 800 won't be able to make it to the payout stage and probably 180 would blow their accounts after the first payout,

So far there is no trouble for the prop firm because if 180 traders request a payout and the average payout size is $2,000 that means the firm has to payout $300,000 which would come from the money the firm made through selling evaluation accounts,

But in this example the prop firm made a million dollars in revenue so they still have $700,000 to themselves even if they payout their traders,

The real problem arises when the prop firm starts to see the last 20 traders being consistently profitable and requesting larger payouts,

And…

2.3 This is How Prop Firms Collapse:

If the prop firm is running on a 100% B-Book model then there will come a time when the marketing and sales won't go so well, the revenue will drop but the consistenly profitable traders will start to request payouts,

Now imagine, A prop firm dong $100,000 in sales but the traders are requesting $200,000 in payouts, where will the money come from ? This is when firms start denying payouts for silly reasons.

This is why it is extremely important to trade with a firm that has its finances sorted and most importantly a firm which also makes money through real trading at the backend, some prop firms have internal algorithms which connects profitable traders to real markets and allocates them real funds which helps the prop firm make money as well, a prop firm can sustain long term only if they are plugging in the profitable traders to real capital or else a small obstacle in sales and the prop firm could collapse,

Me personally, I trust FundingPips for my prop firm evaluations and challenges as they are not 100% B-book, Never denied a payout and never gave me any sort of issues whatsoever and that is the prop firm I would recommend everyone to use.

CHAPTER 3

CHOOSING THE RIGHT PROP FIRM

The first step to becoming a successful prop firm trader is selecting the right firm. This decision can make or break your trading journey, as every firm has different rules, fee structures, and payout policies. Let's explore how to choose wisely.

Key Factors to Consider

When evaluating prop firms, prioritize the following:

1. Evaluation Fees and Rules:
    - Some firms charge high fees for their evaluation programs, while others offer more affordable options. For example, FTMO charges almost $600 for a $100,000 account evaluation, while FundingPips offers similar accounts for as low as $499.
    - Ensure the rules are transparent. Look for reasonable daily and maximum drawdown limits that align with your trading style.
2. Payout Structure:
    - Most firms offer profit splits ranging from 70% to 90%. For instance, FundingPips Offers even a 100% profit split if you choose the monthly payout cycle but the standard is 80%.
    - Check withdrawal policies. Some firms have weekly payouts, while others may take longer or might have an option for you to select the preferred payout cycle yourself such as FundingPips.
3. Firm Credibility:
    - Research the firm's reputation. Are there consistent complaints about payouts? Is the company's business model sustainable?
    - Look for reviews on forums, Reddit, or TrustPilot to ensure the firm is legitimate and trusted.

This may seem like a lot of research but it will surely save you a lot of money going forward, Imagine working hard and losing money for years and then finally one day you master your edge, backtest your setups and witness profitability in your trading, that feeling is just amazing, later you use your skills and clear your evaluations just to realise the prop from collapsed and you won't be getting the fruits of your labour, no payout for you!

Better Safe than Sorry.

CHAPTER 4

UNDERSTANDING PROP FIRM RULES

The most common prop firm rules are :

1. Maximum drawdown limit of 10% which means you cannot lose more than 10% of your initial balance.
2. Daily drawdown limit of 4% which means you cannot lose more than 4% of your initial balance in a single trading day.
3. Minimum 3 trading days which means you need to trade at least 3 days while clearing the evaluation.

The rest of the rules are equally important and because people ignore the other rules, most of them lose their challenges because of those exact rules.

This may sound like boring homework but this can save you a lot of money in future, let me share my own story with you,

I was trading once with instantfunding (another prop firm I used to trade) I thought of giving this firm a try and cleared their evaluation on a $100,000 in less than a week, I was super pumped to take out my first payout with them, and the next week I made a profit of $1700!

Since they have a bi-weekly payout schedule I decided to wait for the next 14 days until I was able to request my payout, after 14 days of long wait the “request payout” button finally changed colours indicating that I can now request a payout and I immediately requested my payout,

I was restless and couldn't contain the excitement of my first payout with instant funding but then came an email saying I had broke their margin rule!

I was shocked and felt cheated when later I realised that they have a margin rule of 50% where a trader cannot use more than 50% margin on their account,

I felt horrible, though the rule was absolutely silly, after all it was a mentioned in their terms and conditions and I was at fault, Unfortunately I was denied my payout of $1700, it costed me $1700 just because I chose to ignore the rules,

After that day I decided not to trade with them and stick to FundingPips as their rules are more flexible.

Pro Tip:

Always read the fine print. Misunderstanding the rules can lead to disqualification even if your trading strategy is profitable.

SECTION 2

PREPARING FOR PROP FIRM SUCCESS

CHAPTER 5

CREATING A WINNING STRATEGY

Every successful trader starts with a solid strategy. However, trading for a prop firm requires tailoring your approach to meet their specific requirements, As I write this, I have secured $400,000+ in funding and $20,000+ in payouts and I am going to tell you something no one else would, If you are trading prop firms your biggest enemy is your risk to reward ratio, A higher risk to reward is the easiest way to blow up a prop firm challenge, yes you heard it right and that is because a higher risk to reward ratio means a lower win rate, When you are trading on a prop firm account you are restricted to drawdown limits and even if you have a profitable system a losing streak can easily wipe out your evaluation The table below shows the correlation between risk to reward ratio and win rate, if your risk to reward ratio is high your win rate will go down.

Risk-to-Reward (R:R)	Likely Win Rate Range	Example of Consecutive Losing Trades (out of 10)
1:1	50% - 60%	4 – 5 losses in 10 trades
1:15	40% - 50%	5 – 6 losses in 10 trades
1:2	30% - 40%	6 – 7 losses in 10 trades
1:3	25% - 35%	7 – 8 losses in 10 trades
1:4	20% - 30%	8 – 9 losses in 10 trades
1:5	15% - 25%	8 – 9 losses in 10 trades

Now imagine this, you have a risk to reward of 1:3 which means out of 10 trades you will end up losing 7-8 trades, now imagine if these 7-8 losing trades happen to be consecutive back to back losses, you will end up blowing your evaluation, the same thing won't apply to a live broker account because your drawdowns are not restricted and if you get your 3 trades right with a 1:3 risk to reward you will end up profitable but In a prop firm that will not be the case.

The table below shows the probability of consecutive losses based on your win rate:

Win Rate	30%	40%	50%	60%	70%	80%
Lose Rate	70%	60%	50%	40%	30%	20%
1 Loss	70.00%	60.00%	50.00%	40.00%	30.00%	20.00%
2 Losses	49.00%	36.00%	25.00%	16.00%	9.00%	4.00%
3 Losses	34.30%	21.60%	12.50%	6.40%	2.70%	0.80%
4 Losses	24.01%	12.96%	6.25%	2.56%	0.81%	0.16%
5 Losses	16.81%	7.78%	3.13%	1.02%	0.24%	0.03%
6 Losses	11.77%	4.66%	1.56%	0.41%	0.07%	0.01%
7 Losses	5.77%	1.68%	0.39%	0.07%	0.01%	0.00%
8 Losses	5.77%	1.68%	0.39%	0.07%	0.01%	0.00%
9 Losses	4.04%	1.01%	0.20%	0.03%	0.00%	0.00%
10 Losses	2.83%	0.60%	0.10%	0.01%	0.00%	0.00%

Notice how the probability of consecutive losses diminish as the win rate goes higher?

The conclusion is simple, you need a strategy with a high win rate to make consistent payouts and clear your evaluations.

CHAPTER 6

PSYCHOLOGY OF PROP FIRM TRADING

The mental game is just as important as the technical side of trading. Prop firm evaluations often push you to your psychological limits.

Managing the Pressure of Evaluations.

Traders often feel the weight of drawdown constraints and profit targets during evaluations. This pressure can lead to emotional decisions like overtrading or revenge trading.

Always remember, your first trade on a fresh account is probably the most important trade because that trade sets the tone for the rest of the action, Always make sure it is your best setup where the chances of you winning the trade is almost 100%, well that is technically impossible but with experience and enough backtesting you will build that intuition

If you lose your first trade it is not the end of the world, staying disciplined is what matters.

Discipline is key.

Traders must learn to step away after getting close to daily loss limits instead of chasing losses. Journaling your trades and reviewing them regularly can help you identify emotional patterns and improve.

SECTION 3

PASSING THE EVALUATION PHASE

CHAPTER 7

STRATEGY FOR PASSING CHALLENGES

Passing the evaluation challenge may seem like the most challenging part of the entire process but trust me it is not what it looks like, All you need is a tested strategy and a high probability setup

Let’s take an example :

Rohan bought a $100,000 1 step challenge with a 10% profit target, He needs to make 10% while making sure the maximum drawdown does not go below 6% and the daily drawdown does not go below 4%,

Rohan has a winning strategy with a win rate of 80% and a risk to reward of 1.5

Trade 1: Rohan plans on risking 2%, since Rohan has a 80% win rate he wins the trade and makes $3,000 on the challenge

Trade 2: The balance stands at $103,000 now Rohan will risk $3,000 per trade risking his profits

if he wins the balance will go up to $107,500 but if he loses the trade the Balance will go down to $100,000 again and Rohan can repeat the process all over again, if he is following his strategy with discipline he will most likely win the next trade because the probability of 2 consecutive losses in a system with 80% win rate is almost negligible

Trade 3: This will be the last trade Rohan needs to take to clear the challenge, he needs $2500 in profits so he can comfortably risk $1700 per trade and clear the challenge with ease

It is not rocket science it is mathematics, statistics and probabilities but this will only play out in your favour if you have a large enough sample size of at least 100 trades and backtested data proving that if the strategy rules and execution remains constant the edge will play out and you will achieve the desired results

Traders focus on big wins instead of consistency, but remember that consistency will make your bank balance go up, a big win won't.

CHAPTER 8

COMMON MISTAKES

Many traders fail their evaluations due to avoidable mistakes. Here are the top pitfalls and how to overcome them.

1. Overleveraging: Using excessive lot sizes to achieve profit targets quickly is a recipe for disaster. For instance, risking 5% on a single trade might wipe out your account if the market moves against you. Stick to a consistent risk percentage for your first winning trade
2. Ignoring the Rules: Firms enforce strict rules like drawdown limits and trading within specific hours. Violating these rules—even if you're profitable—can lead to immediate disqualification.

I have seen countless traders who have lost thousands of dollars because they did not follow a minor rule.

3. Emotional Trading: The pressure of evaluations can lead to revenge trading or overtrading. To avoid this:

- Take breaks after losing trades.
- Journal your emotions to identify patterns.

Pro Tip: Treat the evaluation as a live account. This mindset shift helps reduce emotional mistakes.

4. Using someone else's card for payment: Very few people know that if you use a card payment method to buy your evaluation and the card is not under your name then it can raise a KYC concern resulting into termination of your account, I suggest using crypto
5. Using different emails: Always use the same email everywhere when it comes to prop firms and RISE, rise is a mode of payment to receive payouts, your payouts can be rejected if the emails are different

6. Using a different name: Always ensure you are putting your exact legal name while signing up as mentioned on your passport as it can raise KYC concerns later on.

CHAPTER 9

TRANSITIONING FROM EVALUATION TO FUNDED

Once you've passed the evaluation, the real work begins. Trading a funded account requires a shift in mindset and strategy, Do not celebrate yet because this is the stage where most traders go out of control and blow their funded account,

Statistics say that 90% of traders who get funded blow their funded account in the first 21 days.

1. Adjusting Your Mindset:

   Evaluations focus on meeting targets, but funded accounts prioritize long-term consistency. Avoid high-risk trades and focus on steady growth, always use a consistent risk per trade, I prefer 2% risk per trade

Many traders experience initial challenges when transitioning to funded accounts, often struggling with overtrading or excessive risk-taking, but those who adapt by reducing position sizes and maintaining consistent daily targets typically find long-term success.

2. Maintaining Consistent Performance:

   Consistency is the hallmark of a successful funded trader. To achieve this:

   - Set realistic profit goals (e.g., 5%-10% per month).
   - Avoid the temptation to overtrade after a big win.

3. Building Long-Term Profitability:

Leverage the firm's scaling programs to grow your account size. FundingPips offers a great scaling program with fancy rewards and bonuses.

CHAPTER 10

FUTURE OF PROP FIRMS

The prop firm industry is growing rapidly, with trends like:

- AI-based evaluation tools to assess trader performance.
- More flexible rules, such as extended evaluation periods.
- Expansion into crypto and futures markets.

To stay ahead, traders must continuously improve their skills and adapt to industry changes.

The industry is still unregulated and untapped, huge potential awaits us.

PROP FIRMS FAQ's

1. What happens if I fail an evaluation?

   A: *Most firms allow retakes at a discount*

2. Can I trade multiple accounts?

   A: *Yes, many traders trade across multiple firms*

3. What if the firm goes out of business?

   A: *Stick to reputable firms with transparent operations to minimize this risk.*

4. What if I lose money on a funded account?

   A: *You don't owe the firm anything, if you blow your funded stage account you lose access to your funding but you can always buy another evaluation.*

MY FINAL THOUGHTS

As you come to the end of this book, I want to take a moment to share some personal insights and reflections on the journey of mastering prop firm trading. Trading is not just a career or a means to financial success—it's a discipline, a mindset, and for many, a way of life.

Prop Firms are by far one of the best opportunities to make money in the internet era, It democratises capital and gives a fair opportunity to everyone and anyone as long as they are able to prove it, only thing that is crucial is that while signing up for a prop firm is making sure that the prop firm is reliable, credible and has paid out traders in the past, Throughout this e-book I have mentioned FundingPips everywhere for a reason, because as I write this book they have paid out $100 Million dollars to traders in payouts, Never denied a payout and always stood by their traders as long as they are going by the rule book.

Prop firms have opened up opportunities that didn't exist a decade ago. They've levelled the playing field, giving traders from all walks of life access to capital that was once reserved for institutional players. This evolution in the trading landscape is nothing short of remarkable, but it's also a double-edged sword. The accessibility of prop firms can lure traders into thinking it's easy money. The truth? It's not.

Success in prop firm trading, or any trading, boils down to a few core principles:

1. Discipline is Everything:

   Rules are not your enemy; they are your greatest ally. The evaluation process, drawdown limits, and risk management requirements exist for a reason—to make you a better trader. If you can't adhere to these rules, you're not ready for the responsibility of managing large capital.

2. Consistency Beats Brilliance:

   You don't need to make a fortune overnight. In fact, trying to do so is the fastest way to fail. Focus on small, consistent wins. Remember, trading isn't about getting rich quickly—it's about staying in the game long enough to master it.

3. Mindset is Your Biggest Asset:

   Markets will test your patience, challenge your emotions, and expose your weaknesses. A profitable strategy is worthless if you can't control your mind. Invest as much time in developing your psychology as you do in perfecting your strategy.

4. Failures Are Lessons in Disguise:

   Every trader fails at some point. The difference between those who succeed and those who don't is how they handle those failures. Learn from your mistakes, refine your approach, and come back stronger.

I've written this book not just as a guide, but as a reminder of what's possible. Prop firm trading is an incredible opportunity, but it's not without challenges. If you're willing to put in the work, stay disciplined, and embrace the process, there's no limit to what you can achieve.

Remember, trading is not just about the charts or the markets—it's about the person you become along the way. Every trade teaches you something about yourself, and with every win and loss, you evolve.

As you step into the world of prop firms, carry this mindset with you: Treat every trade as a learning opportunity, respect the rules, and never let the highs or lows define you. The markets are a lifelong teacher, and the journey is just as important as the destination.

I wish you all the success in your trading journey. May this book serve as your companion, guide, and motivator as you navigate the exciting and rewarding world of prop firm trading.

Thank you for allowing me to be a part of your journey, My purpose and mission is to create trading knowledge as accessible to people as possible, hence this ebook was free of cost while I could've charged people money and made thousands of dollars, but for me the purpose and impact I will create through this book is much more important, If this book has added value to your life then don't forget to share your thoughts on your Instagram story and tag me,

Now, it's your turn to take the first step, stay disciplined, and create your success story.

Good luck, and happy trading!