THE ULTIMATE GUIDE TO TREND FOLLOWING

RAYNER TEO

The Ultimate Guide to Trend Following

by Rayner Teo of

Tradingwithrayner.com

This guide is dedicated to all traders out there who believe in trend following. You are awesome and I'll see you on the battlefield.

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ABOUT THE AUTHOR

You've probably found your way to this guide from my website, or maybe a friend passed it along to you. Either way, I'm happy you're here.

I did this guide because I feel that trend following is such a powerful approach to trading the markets, but it is not widely known. Not only did trend following allow me to recover all my losses, but it also made me a consistently profitable trader.

Tradingwithrayner and this guide are my way of giving back for all the fortunate things that have happened to me since I adopted a trend-following approach, including recovering from a 50% drawdown.

This guide lays the foundation to trend following and is a guide to get you started to be a trend follower. It is not a "system" and definitely not a "get rich quick" scheme. It will, however, let you understand what trend following is all about, the 5 core principles behind it and how you can use it to develop your own trading plan.

Don't worry, I've given you a trading strategy as well just to get you started. If it can help just one person to get closer to being a consistently profitable trader, then the month I've spent writing this trading guide will have been totally worth it.

To all my subscribers, followers and friends out there, old and new, thank you for the gift of support. I only hope this trading guide can begin to repay you for all the time and attention you've given me. Here's to you and your continued success!

Rayner Teo

If at any point while going through this guide you have any questions, please don't hesitate to contact me. You can best reach me on Twitter(@Rayner_teo), or on my Facebook Page. Even if you don't have any questions, I'd love for you to come by and say hello! If you want to reach me in private, you can contact me here.

INTRODUCTION

Jesse Livermore, the most famous trader of all time, made $100 million in 1929.

Richard Dennis, the founder of the turtle traders, made $400 million trading the futures market.

Ed Seykota, possibly the best trader of our time, achieved a return of 250,000%, over a 16 year period.

And do you know what is their trading approach?

Trend Following.

This is comprehensive guide, so you'd want to read every word of it.

WHAT IS TREND FOLLOWING?

Trend Following is a trading methodology that, seeks to capture trends across all markets, using proper risk management.

You're wondering:

Why does Trend Following work?

The reason is simple.

Markets are driven by emotions, greed, and fear.

When either side is in control, there will be a trend, and Trend Followers can take advantage of this phenomenon.

I absolutely believe that price movement patterns are being repeated. They are recurring patterns that appear over and over, with slight variations. This is because markets are driven by humans, and human nature never changes. – Jesse Livermore

Here are a few pieces of research that further validates Trend Following:

- Studies by M Potters proves that Trend Following is profitable over the last 200 years
- Studies by Kathryn M. Kaminski validates that Trend Following thrives during crisis periods
- Following the trend by Andreas Clenow explains how hedge funds and professional traders have been consistently outperforming traditional investment strategies

Now:

Behind this trading methodology, lies 5 trading principles that every successful Trend Follower must follow.

And I'm going to reveal them to you, right now…

SECRET #1: BUY HIGH AND SELL HIGHER

Imagine:

You walk into a supermarket and you see apples being sold, 3 for $1. So, you get some apples for a nice healthy snack.

The next day…

You go back to the supermarket and, realize the same apples are now being sold, 3 for $5.

Would you buy it?

Probably not because the price is too high. You'd rather wait for the price to drop, or find other alternatives.

Now you're wondering:

What does buying apples have anything to do with trading?

A lot.

Because your attitude towards buying apples is brought over to your trading endeavor.

Here's what I mean…

Overbought on (USD/JPY):

Price Rally (USD/JPY):

Oversold on (EUR/USD):

More Oversold on (EUR/USD):

The takeaway is this…

The market is never too high to go long, or too low to short.

SECRET #2: JUST FOLLOW PRICE

You want to be right.

It feels good to know you called the tops and bottoms in the market.

However, when you start making predictions in the market, it clouds your judgment, and you start losing objectivity of the markets.

This leads to fatal trading mistakes like:

- Refusing to take a loss because you want to be right
- Averaging into your losses because you can get it "cheaper" now
- Revenge trading because you want to make back your losses

Now, what should you do instead?

The best thing you can do as a trader is, just follow price.

Here's what I mean…

Uptrend on (NAS100USD):

Downtrend on (XCU/USD):

What's the takeaway?

If you notice the price is forming higher lows, with resistance constantly breaking, chances are it's an uptrend. You should be looking to long.

If you notice price forming lower lows, with support constantly breaking, chances are it's a downtrend. You should be looking to short.

SECRET #3: RISK A FRACTION OF YOUR TRADING CAPITAL

Imagine:

You have a trading system that wins 50% of the time with 1:2 risk-reward.

And you have a hypothetical outcome of L L L L W W W W

It's a profitable system, right?

It depends.

If you risk 30% of your equity, you'd blow up by the 4th trade (-30 -30 -30 -30 = -120%)

But…

If you risk 1% of your equity, you'd have a gain of 4% (-1 -1 -1 -1 +2 +2 +2 +2 = 4%)

Having a winning system without proper risk management isn't going to get you anywhere.

You need a winning system with proper risk management.

And not forgetting…

The recovery from the risk of ruin is not linear, it could be impossible to recover if it goes too deep.

% Loss Of Capital	% Of Gain Required To Recover Loss
10%	11.11%
20%	25%
30%	42.85%
40%	66.66%
50%	100%
60%	150.00%
70%	233.00%
80%	400.00%
90%	900.00%
100%	Broke!

If you lose 50% of your capital, you need to make back 100% to break even. Yes, you read right. 100%, not 50%.

That's why you always want to risk a fraction of your equity, especially when your winning ratio is less than 50%.

So, how much should you risk exactly?

This depends on your winning ratio, the risk to reward, and your risk tolerance. I advise risking no more than 1% per trade.

If you want to learn more, then check out The Complete Guide to Risk Management and Position Sizing.

SECRET #4: NO PROFIT TARGETS SO YOU CAN RIDE MASSIVE TRENDS

Although trend followers have no profit targets, it doesn't mean we don't exit our trades.

We exit our trades using a trailing stop mechanism, instead of having a profit target like support & resistance etc.

Here're a couple of examples…

Support take profit on (UKOIL):

Trailing stoploss on (UKOIL):

Resistance take profit on (XAU/USD):

Trailing stoploss on (XAU/USD):

Some ways to trail your stop loss are:

- Moving average crossover
- Price closing beyond moving average
- Break of price structure
- Break of trendline
- Number of ATR away from the peak/trough

If you want to learn more, here are 13 ways to exit your trades to reduce risk, and maximize profits.

The hardest part about Trend Following is riding your winners. Because you'll watch many small wins turn into losses while attempting to ride the trend.

This results in a low winning rate but, high reward to risk.

SECRET #5: TRADE ALL MARKETS TO INCREASE YOUR ODDS OF CAPTURING TRENDS

Markets spend more time ranging than trending. Thus, it makes sense to look at a variety of markets, to increase your odds of capturing trends.

Trend followers trade everything from currencies, agriculture, metals, bonds, energy, indices, orange juice, pork bellies, etc. You can view a comprehensive list here.

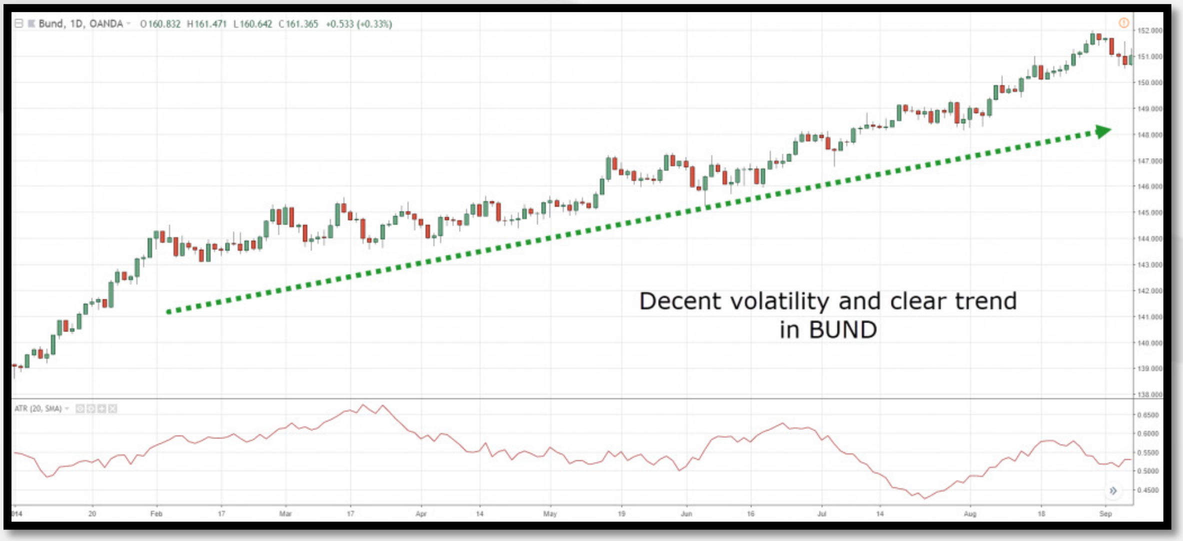
If you recall, most major currencies were ranging during the 1st half of 2014…

But if you looked at more markets, you could capture a trend…

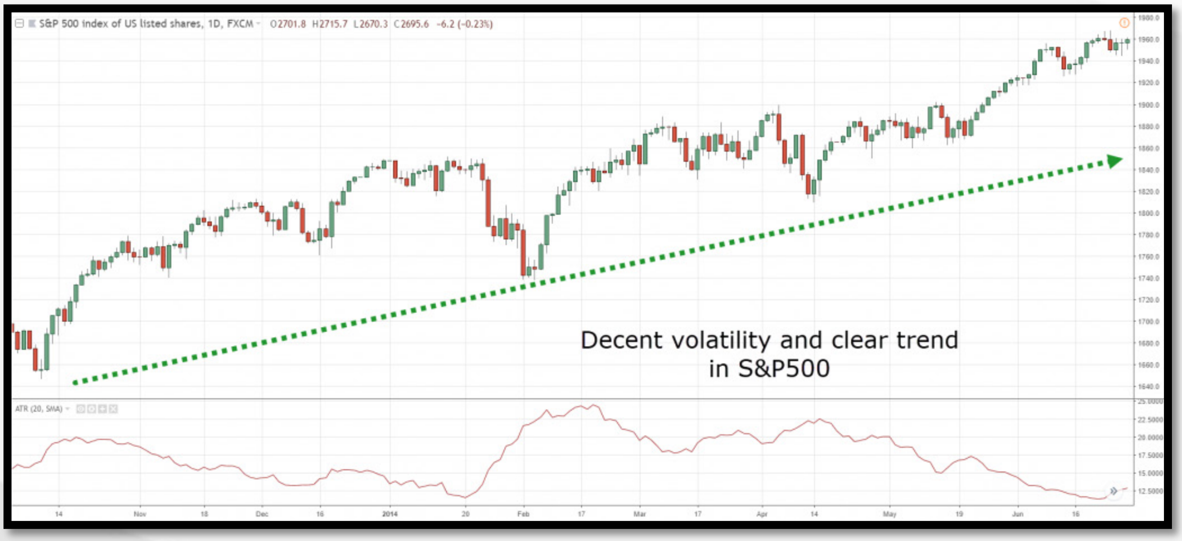
Low volatility on (EUR/USD):

Low volatility on (AUD/USD):

Decent volatility and trend on (DE10YBEUR):



Decent volatility on (SPX):



What's the key takeaway?

Trading across different markets help reduce your drawdowns and improve your profitability.

And this is one of the biggest secrets behind a trend follower's success.

Now, you're probably wondering:

HOW DOES TREND FOLLOWING HAVE AN EDGE IN THE MARKETS?

Imagine this:

A company called Orange has been trading higher over the last 6 months.

Orange currently trades at $100 and you think it's overvalued. You decided to short 1000 shares of Orange, at $100 with a profit target at $90, using no stop loss.

You apply this trading principle across all markets you're trading. A small profit target with no stop loss.

What do you think will happen?

You'll win often but, eventually, there will be a trade that goes against you, till you blow up your trading account.

Now imagine…

What if I'm on the opposite side of your trade?

I would lose often but, all I need is one trade to make it all back, and more.

And this is the same trade that caused you to blow up your account.

A few examples in real life:

- Fall of Long Term Capital Management
- Destruction of Bear Stearns
- The 2008 financial crisis

These events caused investors and traders to lose tons of money. But in a zero sum game, someone loses and someone wins.

And the winner happens to be Trend Followers. This is our edge.

DIFFERENT APPROACHES TO TREND FOLLOWING

Trend Following can be further divided into 2 different approaches.

- Systematic trading
- Discretionary trading

SYSTEMATIC TRADING

Systematic trading has defined rules that decide the entry, exit, risk management, and trade management.

This approach is widely adopted by big hedge funds like Dunn, Winton, and MAN AHL.

Although systematic trading is automated, there are still key decisions that a manager has to make.

Decisions like…

- How much to risk
- What markets to trade

The manager has to decide how much risk to accept, which markets to play, and how aggressively to increase and decrease the trading base as a function of equity change. These decisions are quite important—often more important than trade timing. – Ed Seykota

DISCRETIONARY TRADING

Discretionary trading has lesser defined rules that decide the entry, exit, risk management, and trade management.

It requires a trader's attention, trading based on technical analysis, with more intervention.

This approach is widely adopted by smaller individual traders.

Although discretionary trading is more subjective, it is still guided by a trading plan.

So moving on…

TREND FOLLOWING TRADING STRATEGY

Now you've learned the 5 secrets of Trend Following. Let's put the information to use and develop a trading strategy.

To develop a Trend Following strategy, it needs to answer these 7 questions:

1. Which time frame are you trading
2. How much are you risking on each trade
3. Which markets are you trading
4. What are the conditions of your trading strategy
5. Where will you enter
6. Where will you exit if you're wrong
7. Where will you exit if you're right

TIMEFRAME

You must choose a time frame that suits your personality and schedule.

If you're someone who holds a day job, trading the 4 hour and daily charts would suitable.

RISK MANAGEMENT

You must risk a fraction of your equity on each trade to survive the inherent drawdowns. Keep your losses to no more than 1% on each trade.

MARKETS UNIVERSE

You should be able to trade about 60 markets from these 5 sectors.

1. Agriculture commodities
2. Currencies
3. Equities
4. Rates
5. Non-Agriculture Commodities

TREND FOLLOWING TRADING STRATEGY

If 200ma is pointing higher and the price is above it, then it's an uptrend (trading conditions).

If it's an uptrend, then wait for "two tests" at the dynamic support (using 20 & 50-period moving average).

If price test dynamic support twice, then go long on the third test (your entry).

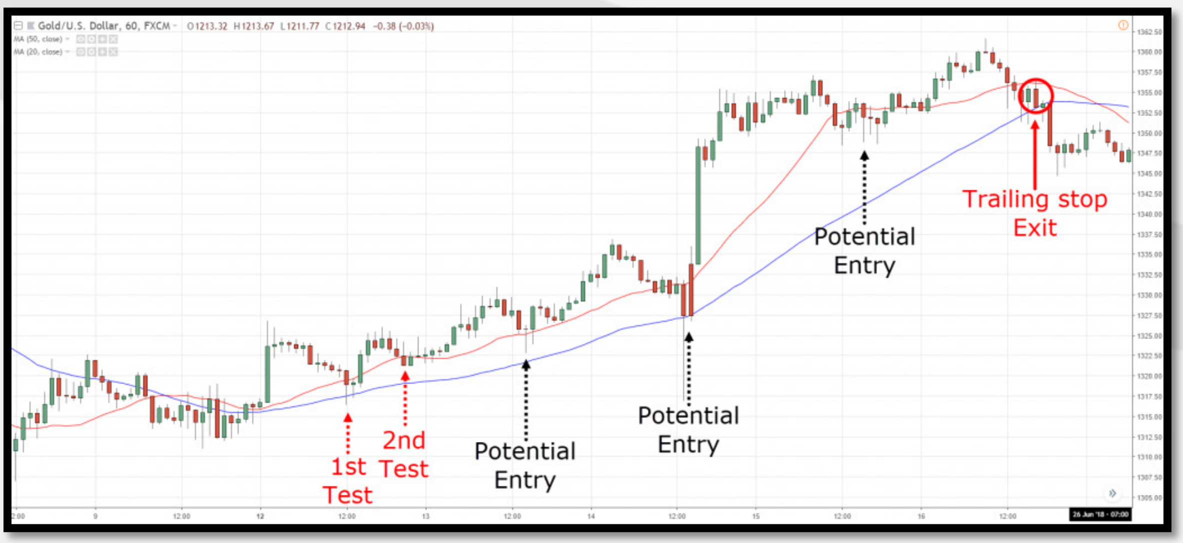
If long, then place a stop loss of 2 ATR from your entry (your exit if you're wrong).

If the price goes in your favor, then take profits when candle close beyond 50ma (your exit if you're right).

Vice versa for a downtrend.

Here're a few examples...

Winning trade on (XAU/USD):



Winning trade on (UKOIL):

Losing trade on (AUD/USD):

If you prefer less subjectivity in your trading, then consider this trading approach...

A SYSTEMATIC TREND FOLLOWING SYSTEM THAT WORKS

TRADING RULES:

- Go long when the price closes the highest over the last 200 days
- Go short when the price closes the lowest over the last 200 days
- Have a trailing stop loss of 6 ATR
- Risk 1% of your capital on each trade

MARKETS TRADED:

- Gold, Copper, Silver, Palladium, Platinum
- S&P 500, EUR/JPY, EUR/USD, Mexican Peso, British Pound
- US T-bond, BOBL, BUXL, BTP, 10-year Canadian bond
- Heating Oil, Wheat, Corn, Lumber, Sugar

THE BACKTEST RESULTS:

- Number of trades: 937 trades
- Winning rate: 42.8%
- Annual return: 9.89%
- Maximum drawdown of 24.12%.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr%
2000	3.30%	11.20%	-0.80%	-0.40%	-1.00%	-0.20%	4.20%	4.50%	-5.10%	-1.40%	0.70%	4.60%	20.40%
2001	0.20%	-0.50%	3.20%	-4.00%	-0.80%	2.70%	2.80%	-0.20%	2.00%	3.20%	-3.20%	0.60%	5.90%
2002	-0.80%	0.40%	-0.70%	-2.40%	0.10%	0.90%	4.20%	2.70%	5.00%	-4.00%	0.80%	6.40%	12.90%
2003	7.00%	4.20%	-5.20%	1.40%	5.50%	-0.20%	1.90%	-2.50%	-1.70%	2.10%	0.00%	8.30%	21.80%
2004	-0.20%	6.40%	1.60%	-6.50%	0.00%	-0.50%	4.00%	-2.70%	1.00%	-2.70%	5.10%	1.50%	6.30%
2005	-0.50%	-1.40%	-2.10%	0.30%	2.60%	-1.30%	-3.10%	-2.60%	-0.20%	-0.60%	8.30%	3.50%	2.40%
2006	9.00%	-2.80%	1.20%	14.30%	3.00%	-2.50%	-1.90%	0.80%	-0.40%	0.10%	3.80%	-2.70%	22.70%
2007	-0.20%	-5.10%	1.70%	0.60%	1.60%	0.70%	-4.20%	0.20%	7.50%	3.00%	-1.80%	-0.40%	3.20%
2008	8.30%	14.10%	-6.50%	-2.60%	1.00%	3.20%	-2.70%	0.50%	2.60%	8.30%	3.80%	3.10%	36.40%
2009	-0.70%	-2.60%	-3.70%	0.00%	-0.40%	-0.40%	0.10%	4.10%	-1.10%	-2.50%	7.70%	-2.70%	-2.70%
2010	0.50%	1.10%	3.30%	3.60%	-1.20%	2.20%	-2.80%	11.10%	-2.60%	1.90%	-5.70%	3.10%	14.40%
2011	1.20%	0.10%	-0.90%	6.80%	-7.60%	-3.40%	-4.20%	1.40%	8.90%	-6.20%	-2.70%	-0.10%	-7.60%
2012	-2.30%	0.40%	-1.80%	0.50%	9.70%	-6.10%	0.90%	-3.30%	-0.60%	0.30%	2.30%	1.50%	0.80%
2013	1.10%	-4.50%	0.50%	4.80%	-1.70%	3.80%	-1.40%	-1.40%	-1.00%	1.10%	2.20%	3.20%	6.70%
2014	0.20%	1.40%	1.50%	3.50%	3.90%	-1.30%	3.80%	8.60%	5.70%	-3.00%	7.90%	6.60%	45.50%
2015	10.60%	-2.90%	4.30%	-1.90%	-1.00%	0.60%	4.10%	-2.10%	-2.70%	-1.90%	2.30%	-2.80%	5.80%
2016	2.00%	0.90%	-3.20%	-3.60%	-3.70%	4.20%	1.40%	-0.70%	-3.00%	-2.60%	2.50%	-1.30%	-7.20%
2017	-4.30%	0.00%	-3.10%	0.10%	-2.40%	2.90%	4.30%	0.50%	0.10%	2.20%	3.30%	2.00%	5.40%

Pro Tip:

If you trade more markets, you can improve the returns and reduce the drawdown.

NOW YOU MIGHT BE WONDERING… "DOES TREND FOLLOWING WORK ON STOCKS?"

Yes, Trend Following can be applied to the stock markets but with a few exceptions…

#1: Avoid shorting stocks because in the long run, the stock market is in an uptrend. Thus, it's more profitable to remain on the long side or in cash (and avoid short selling).

#2: Have a filter to rank stocks as there are thousands of stocks available and you need to decide which ones you want to trade.

And here's a simple Trend Following system for the stock markets…

TRADING RULES:

- Go long when a stock hits a 50-week high
- Have a 20% trailing stop loss
- If there are too many stocks to choose from, select the top 20 stocks with the largest price increase over the last 50 weeks
- Buy a maximum of 20 stocks with not more than 5% of your capital allocated to each stock

MARKETS TRADED:

- Stocks from the Russell 1000 index

THE BACKTEST RESULTS:

- Number of trades: 707 trades
- Winning rate: 48.66%
- Annual return: 12.81%
- Maximum drawdown of 40.75%.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr%
1990	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.20%	1.20%	-0.80%	0.60%
1991	0.10%	5.20%	2.50%	-1.20%	1.00%	-3.30%	6.00%	3.40%	1.50%	2.20%	0.90%	8.70%	30.10%
1992	-6.00%	-0.70%	-1.70%	1.60%	3.50%	1.00%	5.30%	-2.10%	0.60%	-0.60%	1.50%	4.10%	6.00%
1993	3.10%	5.50%	1.60%	-0.20%	0.60%	2.20%	3.80%	5.20%	1.20%	-0.80%	-7.80%	2.30%	17.40%
1994	-0.90%	-2.70%	-5.30%	1.10%	0.10%	-4.30%	4.20%	4.60%	-1.40%	2.10%	-5.30%	0.80%	-7.30%
1995	-0.20%	7.00%	1.80%	5.80%	1.70%	8.10%	8.70%	1.90%	8.00%	-0.80%	4.50%	0.60%	57.70%
1996	0.30%	2.60%	3.80%	3.20%	4.00%	-1.30%	-8.50%	1.80%	6.20%	2.70%	5.20%	-0.40%	20.20%
1997	4.70%	-7.30%	-3.70%	6.40%	6.80%	4.00%	13.10%	-2.90%	7.00%	-4.00%	4.90%	1.20%	32.40%
1998	-0.90%	6.70%	5.80%	-2.00%	-0.80%	6.00%	-3.60%	-16.50%	9.00%	-4.50%	4.50%	9.80%	10.90%
1999	4.00%	-3.00%	10.70%	-1.80%	-0.40%	2.90%	-0.40%	2.30%	-5.00%	10.20%	9.70%	24.40%	63.80%
2000	4.60%	35.10%	-6.00%	-20.80%	2.20%	2.40%	4.90%	0.90%	3.00%	-10.90%	4.60%	9.10%	21.90%
2001	-7.40%	-0.20%	-2.70%	5.70%	0.40%	-1.70%	-0.60%	-2.70%	-6.10%	-2.30%	2.40%	3.90%	-11.50%
2002	1.70%	0.30%	3.50%	4.20%	0.40%	-3.50%	-9.20%	0.80%	-4.60%	0.90%	-1.30%	-0.80%	-8.00%
2003	1.30%	0.70%	0.70%	4.50%	7.10%	2.10%	1.50%	2.70%	2.30%	8.50%	1.50%	0.40%	38.40%
2004	2.70%	4.10%	1.10%	-6.20%	1.40%	7.00%	-6.20%	0.80%	2.50%	1.30%	9.10%	4.70%	23.60%
2005	-2.00%	4.80%	-1.00%	-4.00%	2.10%	1.90%	3.50%	-3.00%	5.00%	-4.10%	1.30%	3.00%	7.10%
2006	3.50%	-2.80%	1.30%	-0.80%	-6.30%	-0.10%	-1.40%	0.50%	0.80%	4.20%	2.20%	1.40%	2.20%
2007	0.50%	-0.40%	1.80%	4.90%	1.40%	-4.10%	-3.50%	2.50%	6.40%	3.40%	-2.20%	-0.80%	9.80%
2008	-12.10%	0.40%	-4.60%	2.60%	2.80%	5.40%	-12.10%	-0.80%	-5.10%	-7.30%	1.40%	0.00%	-27.20%
2009	-0.30%	-3.50%	-1.00%	-0.10%	-0.90%	-1.00%	6.50%	1.70%	2.60%	-5.40%	4.90%	4.80%	7.90%
2010	-3.50%	7.70%	7.80%	2.30%	-6.80%	-4.20%	6.40%	-1.50%	9.50%	1.80%	3.60%	3.00%	27.60%
2011	1.20%	5.60%	3.10%	4.00%	1.10%	-2.20%	-2.60%	-7.80%	-4.10%	1.50%	0.80%	1.20%	1.00%
2012	-0.60%	3.30%	4.10%	1.10%	-1.00%	2.00%	-0.90%	-0.40%	4.70%	-2.60%	1.30%	-0.40%	10.80%
2013	6.60%	-0.30%	3.30%	1.50%	0.80%	-2.80%	0.50%	-1.40%	7.30%	5.00%	1.80%	1.80%	26.20%
2014	-1.50%	5.60%	-0.90%	0.50%	2.10%	2.40%	-1.70%	3.70%	-1.00%	2.50%	3.40%	0.20%	16.30%
2015	0.30%	3.20%	0.30%	-2.30%	3.70%	-0.20%	4.20%	-5.80%	-5.30%	5.90%	-1.20%	0.40%	2.50%
2016	-3.30%	-0.70%	6.20%	0.00%	0.80%	4.70%	1.70%	-1.70%	1.40%	-0.40%	-0.20%	2.00%	10.60%
2017	1.40%	3.50%	0.50%	1.00%	3.70%	-1.00%	1.70%	2.90%	3.90%	8.60%	1.50%	-1.90%	28.40%
2018	4.60%	-1.50%	0.50%	2.40%	2.80%	-0.90%	-2.00%	8.50%	0.30%	-10.30%	1.30%	-6.60%	-2.10%

Pro Tip:

If you add a trend filter, you can improve the returns and reduce the drawdown.

And there you have it.

A Trend Following system that allows you to profit in bull & bear markets.

To be honest, the strategy is least of your concern. Instead, you should focus on your risk management, markets universe and trading consistency.

***Disclaimer: I will not be responsible for any profit or loss resulting from using these trading strategies. Past performance is not an indication of future performance. Please do your own due diligence before risking your hard-earned money.*

Moving on…

ED SEYKOTA: 19 TRADING QUOTES FROM A MARKET WIZARD

1. In order of importance to me are: (1) the long-term trend, (2) the current chart pattern, and (3) picking a good spot to buy or sell.

2. I set protective stops at the same time I enter a trade. I normally move these stops to lock in a profit as the trend continues.

3. Before I enter a trade, I set stops at a point which the chart sours.

4. The markets are the same now as they were five to ten years ago because they keep changing – just like they did then.

5. Risk control has to do with your willingness to allow your stop to do its job.

6. Speculate with less than 10% of your liquid net worth. Risk less than 1% of your speculative account on a trade. This tends to keep the fluctuations in the trading account small, relative to net worth.

7.Reliance on Fundamentals indicates a lack of faith in trend following.

8. I usually ignore advice from other traders, especially the ones who believe they are on to a "sure thing". The old-timers, who talk about "maybe there is a chance of so and so," are often right and early.

9. Pyramiding instructions appear on dollar bills. Add smaller and smaller amounts on the way up.

10. Having a quote machine is like having a slot machine on your desk — you end up feeding it all day long. I get my price data after the close each day.

11. The manager has to decide how much risk to accept, which markets to play, and how aggressively to increase and decrease the trading base as a function of equity change. These decisions are quite important—often more important than trade timing.

12. Periods during which trend-following systems are highly successful will lead to their increased popularity. As the number of system user's increases and the markets shift from trending to directionless, these systems become unprofitable, and undercapitalized and inexperienced traders will get shaken out. Longevity is the key to success.

13. I don't think traders can follow rules for very long unless they reflect their own trading style. Eventually, a breaking point is reached and the trader has to quit or change or find a new set of rules he can follow.

14. Trading Systems don't eliminate whipsaws. They just include them as part of the process.

15. If you can't take a small loss, sooner or later you will take the mother of all losses.

16. I handle losing streaks by trimming down my activity. I just wait it out. Trying to trade during a losing streak is emotionally devastating. Trying to play "catch up" is lethal.

17. One alternative is to keep bets small and then to systematically keep reducing risk during equity drawdowns. That way you have a gentle financial and emotional touchdown.

18. A losing trader can do little to transform himself into a winning trader. A losing trader is not going to want to transform himself. That's the kind of thing winning traders do.

19. The elements of good trading are (1) cutting losses, (2) cutting losses, and (3) cutting losses. If you can follow these three rules, you may have a chance.

RICHARD DENNIS: 17 TRADING QUOTES FROM A MARKET WIZARD

1. Whatever method you use to enter trades, the most critical thing is that if there is a major trend, your approach should assure that you get in that trend.

2. A good trend following system will keep you in the market until there is evidence that the trend has changed.

3. When you have a position, you put it on for a reason, and you've got to keep it until the reason no longer exists.

4. You should expect the unexpected in this business; expect the extreme. Don't think in terms of boundaries that limit what the market might do.

5. If there is any lesson I have learned in the nearly twenty years that I've been in this business, it is that the unexpected and the impossible happen every now and then.

6. Trading decisions should be made as unemotionally as possible.

7. Trade small because that's when you are as bad as you are ever going to be. Learn from your mistakes.

8. I could trade without knowing the name of the market.

9. In the real world, it is not too wise to have your stop where everyone else has their stop.

10. You could publish trading rules in the newspaper and no one would follow them. The key is consistency and discipline.

11. There are lots more false breakouts, perhaps because there are more computer-based trend followers.

12. It is misleading to focus on short-term results.

13. You have to minimize your losses and try to preserve capital for those very few instances where you can make a lot in a very short period of time. What you can't afford to do is throw away your capital on suboptimal trades.

14. I learned that a certain amount of loss will affect your judgment, so you have to put some time between that loss and the next trade.

15. Trading has taught me not to take the conventional wisdom for granted. What money I made in trading is a testimony to the fact that the majority is wrong a lot of the time.

16. Almost anybody can make up a list of rules that are 80 percent as good as what we taught people.

17. I've learned that markets, which are often just mad crowds, are often irrational; when emotionally overwrought, they're almost always wrong.

JESSE LIVERMORE: 19 POWERFUL QUOTES FROM THE LEGEND

1. Watch the market leaders.

2. What has happened in the past will happen again. This is because Markets are driven by humans and human nature never changes.

3. It was never my thinking that made the big money for me. It was always my sitting.

4. You can win on a stock, but you cannot beat Wall Street all the time.

5. It is what people did in the stock market that counts — not what they said they were going to do.

6. Successful trading is always an emotional battle for the speculator, not an intelligent battle.

7. I believe the public wants to be led, to be instructed, to be told what to do.

8. If you can't sleep at night because of your stock position, then you have gone too far.

9. Remember that stocks are never too high for you to begin buying or too low to begin selling.

10. Not taking the loss, that is what does damage to the pocketbook and to the soul.

11. I trade my own information and follow my own methods.

12 I don't buy long stocks on a scale down, I buy on scale-up.

13. Trading is not a get rich quick scheme.

14. Being a little late in a trade is insurance that your opinion is correct.

15. Never average losses.

16. Don't try to play the market all the time.

17. Trade along the path of least resistance.

18. Markets are never wrong, but opinions often are.

19. I never argue with the tape.

FINAL WORDS FROM RAYNER

Congratulations! If you have made it to this point, you definitely have the trend following spirit in you. I know I've provided you with a lot to think about in this guide, but you now have the knowledge to take the information and apply it into your trading. Here are a few final thoughts I'd like to share with you before I finish up.

HOW MUCH YOU SUCCEED IS ALL UP TO YOU

The thing about trading is that it doesn't care about your educational background. You can be a first-class honors graduate or a school dropout, but if you fail to follow the rules of the market, it will take your money, regardless of your status and background.

But if you follow the rules of the market, then how much you can make is entirely up to you. You can trade 0.1 lot, 1 lot, or 10 lots, and your profit and loss is a matter of a few more zeros behind.

ROME WASN'T BUILT IN A DAY

Trading is like learning a new skill, you need to be willing to put in time and effort to be proficient in it. There are countless lessons to learn from the markets and every mistake you learn is a step closer to profitable trading.

Most degree graduates spent 3 years in school studying, what more of a trader acquiring a skill that could feed him for life? Don't think about the money just yet, just focus on doing the right things one step at a time.

Some take 9 years before being profitable whereas some never figure it out and eventually give up. If you really want it bad enough, then persevere on and always look at the big picture, to be a consistently profitable trader.

DON'T BE AFRAID TO ASK FOR HELP

There is absolutely no reason why you shouldn't ask for help when you need it. Many people, including myself, are happy to help people out. You'd be surprised. If

THANK YOU SO MUCH!

I hope you've enjoyed this guide as much as I loved writing it for you. I can't thank you enough for your continued support for TradingwithRayner and everything I do.

Now if you've enjoyed this trading guide, then I'm sure you'll love Pro Traders Edge.

This is where you get access to my market insights, weekly trade alerts, backtest research lab, private trading community, and much more.

Get Started Now

Cheers,

Rayner Teo