DOs and DONTs of Trading

Note: We in Finitor Financial Services Private Limited have tried to put a list of trading prudence based on our understanding and knowledge. By no means we are trying promote or advocate trading and speculating activities. We in Finitor do not claim to be an expert on the subject. Please read the Disclaimer & Risk Factors at the end.

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1. Be on the right side of the market: The simple message is to follow the trend and not try to outsmart the market. Few seem to be able to do so consistently. A trader should try to protect himself against his own self-confidence and putting a stop loss to his knowledge and understanding of the market would always help. Real secret to outperforming the market over time is not about racing ahead of the market in a bull run but instead underperforming when bear takes over, means losing a lot less money than the market when downhill. Investors/traders were better off exiting the market early in 2008. Sometimes winning means not losing money.

2. Trading goals and objectives give direction and help in making decisions in line with the set goals and objectives. But remain flexible to reset and fine tune them if they are not working.

3. A trader should not participate in the market until he knows himself, whether he is a scalper, day trader, swing trader, active/passive investor, arbitrageur, option buyer, or a hedger. This helps to set goals and objectives, mobilise resources accordingly and plan time.

4. Traders who do not take delivery of stocks may look at money management techniques.

5. Never overtrade; derivatives, leverage products and margin traders tend to overtrade. Control fear, greed and herd instincts.

6. A trader should plan his day and trades, one should establish risk reward ratio for each trade.

7. Entry at bottom and exit at top are difficult to achieve, identifying trend is easier.

8. Ride the wave. stop loss is the best friend in eventuality.

9. A trader should not marry his trades or stocks, guard against illiquid stocks and derivatives contracts.

10. Volatility is not a bad word for an option trader.

11. Use technical signals (charts) to identify trend avoid contradictory signals e.g. long signal on a technical chart with contradictory poor NPA data of a banking stock should be avoided.

12. Use discipline to eliminate impulsive and herd behavioural trading.

13. Don’t trade for fun, thrill seekers usually lose.

14. Do not overstay a good market. If one does, he is bound to overstay a bad one also.

15. There are only two possibilities with a trade (as per the probability distribution theory half of trades would not be successful); either the trade could win or lose. If it wins keep it and cut it in case of loss. A stop loss helps to keep the loss short and small, trailing stop loss helps one win big.

16. A trader should be ready to accept many small losses and remain patient for large gains.

17. A trader should get tuned to trade in downhill too.

18. Diversifying trades in few asset classes always spread the risk.

19. Programmed trading eliminates human emotions and random decisions.

20. Nothing is more sustainable and rewarding than the self-knowledge, but it pays to have strong professionals with sound knowledge and experience to guide.

21. A trader should choose a broker who is compliance driven and uncompromising in risk management. A broker who is uncompromising on these aspects with one client is also the same with other clients. An efficiently risk managed and compliance driven brokerage ensures its' own safety and therefore safety of everyone's fund. One should not change its' trusted broker for a small rebate in commission.

22. Raise valid concerns with Broker in time.

23. Trading financial securities, financial and commodity derivatives are demanding, and can be draining; getting away from it time-to-time to recharge batteries is a good idea.

24. Sustainability is key to success, even if there is bigger risk appetite, breaking-down large risk into smaller and manageable pieces improves longevity.

25. No-one should trade on rumours, hearsay, insider information and tips, if one needs advice should connect with an expert.

26. No-one should trade unless he/she is completely aware of his/her risk appetite. Don't ever trade with borrowed money.

27. Increasing exposure and averaging to a losing position is not a prudent idea.

28. One should analyse his trades both winning and losing positions. A trader should learn from his loss because he has paid for it and a winning trade would make him more prudent and add to his experience.

29. A new entrant in the market should start small. No one becomes champion in a day.

30. "Rome was not built in a day," quick and big bucks are not sustainable.

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Risk Factors

Please note that investments/trading in financial instruments such as equity, debt, financial derivatives (equity, various indices, currency, fixed income including interest rates & credit derivatives) and commodity & commodity derivatives are subject to but not limited to market and other risks and there is no assurance or guarantee that the intended investment/trading objectives will be achieved. Past performance of a financial instrument and commodity & commodity derivatives as mentioned above may or may not be sustained in future and is no indication of future performance. Investment/trading return(s) and an investor's principal value will fluctuate so that, when redeemed, sold, squared off (reverse trade), an investor's principal may be worth more or less than their original cost including the possibility of losing the entire principal invested. In yet another situation there are possibilities of losses due to securities, commodities and derivatives contracts getting delisted on respective exchanges.

In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in economic growth, industry growth, company specific (demand for the company's products, changes in management, technology, operating and/or material costs, competitive pressure) fundamentals, balance of payment, revenue deficit, monetary & financial policy, taxation, liquidity (global and local) and credit demand, capacity utilisation, wage inflation, unemployment, commodity prices, exchange rate, housing prices, consumer confidence, political, geo-political, socio-political, market, spread and volume related risks, credit default risks etc.

Summary: All investments/trading activities carry risks and they can be classified under two categories systematic and unsystematic risk. Investors/traders should have complete understanding of both the risks before they undertake investment and trading activities.