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JERRY ROBINSON'S

TOP 10 TRADING RULES

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TRADING RULE #1

KNOW CURRENT MARKET CONDITIONS BEFORE TRADING

Before placing a trade, the first question that I ask is: ***"What is direction of the current market trend?"***

Why? Because historical data has shown that 3 out of 4 stocks tend to follow the overall trend of the market.

The never-ending stream of financial news means little to me personally until I have seen a chart of the market's major index. Before placing a trade in the U.S. stock market, know the current state of the S&P 500 index. I examine the S&P 500 index chart in all relevant time frames to fully understand the state of the broader market.

Many of history's top traders understood the importance of waiting for a general market uptrend before pyramiding their capital into the day's leading stocks. When the market signals a new uptrend, I begin buying (or adding) positions in leading stocks within the leading industry groups within the leading sector(s). When the S&P 500 enters a new major downtrend, I begin to lighten up my exposure by locking in gains and raising my stop losses.

If your goal is to earn money from the markets, don't fight the general market trend. Instead, let the trend become your profitable friend!

If your goal is to earn money from the financial markets, don't fight the general market trend.

TRADING RULE #2

PLAN YOUR TRADE AND TRADE YOUR PLAN

Most traders fail because they don't have a trading plan. And because they don't have a trading plan, they are held hostage by their **emotions**, which inevitably leads to losses in the markets.

You may be surprised to learn that most traders do not have a plan or strategy. This is because many retail traders approach trading as a hobby and, therefore, don't invest the necessary time and energy to develop their entry and exit strategy along with a set of money management rules, such as using stop loss orders. Additionally, most traders don't review their gains and losses so they are unable to learn from their mistakes and their failures.

Without a consistent trading plan that includes money management rules, most traders are usually nervous about their trades and lack confidence, which leads them to second guess their trades. This, of course, explains why so many traders lose money in the markets.

By developing a trading plan, you can control your emotions and conquer your fears of trading.

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Put simply, trading according to a strict trading plan prevents your emotions from keeping you out of the market when you should be in, and in the market when you should be out.

TRADING RULE #3

AVOID LOW VOLUME STOCKS

I prefer to trade stocks with **at least 400,000 shares in average daily volume**. *If the stock price is less than $5.00, then I raise my minimum volume requirement to 1 million shares.* However, remember that the level of a stock's volume provides us with an instant look at the current level of interest in that particular stock. When a stock trades on low daily average volume, it is a sign that there is less interest in that issue than another stock with larger amounts of volume.

While it is true that stocks with low volume carry a greater potential for large moves, these moves are much more difficult to identify in advance, compared to stocks that trade on higher volume. Additionally, stocks that trade on low volume are often more difficult to sell (or liquidate) than their higher volume counterparts. If, for example, a trader earns a nice profit on a low volume stock and decides to sell the stock, it can take many minutes, hours, and even days to sell - all depending on the amount of the volume the stock carries.

By the time the order is finally completed, the price could be higher or lower than the trader had initially expected.

So, do yourself a favor and up the odds of your success by focusing your trading efforts on stocks that are more liquid with good and consistent amounts of daily volume.

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TRADING RULE #4

KEEP A TRADING JOURNAL

Over the past 20 years of my trading career, I have learned the absolute importance of keeping a record of my trading activity. Without a record, or a journal, of your previous trades, it can be difficult to remember which strategies worked, and which ones didn't.

All functioning systems need some type of feedback loop in order to make meaningful improvements. For example, employees of most companies must complete an annual performance review in which their boss sits them down and tells them what they've done well and what they can improve on.

All functioning systems require a feedback loop to make meaningful improvements.

Your progress as a stock trader is no different. A feedback loop is crucial so you can make adjustments and improvements. One definition of insanity is doing the same thing over and over and expecting different results each time. If you trade securities without any feedback, I'd say you're bordering on insanity (*especially if you keep seeing your trading balance decrease!*).

Your feedback loop should take the form of a trading journal in which you record all your trades. After each position closes, you can return to the journal entry to discover what you did right or wrong.

You may be surprised at what you uncover.

TRADING RULE #5

ALWAYS USE STOP LOSS ORDERS

One of the most common trading catchphrases is, "Cut your losses short and let your winners run."

Put simply, this popular phrase emphasizes the importance of not selling a stock too quickly when it is rising, as well as not holding on to a stock when it's price is tanking. While this may sound obvious, it is often much easier said than done. After all, if you are trader, how many times have you sold a stock, only to later watch it continue rising in price, or held onto a losing stock only to watch it fall further in value?

If this describes you, you can break the frustrating and vicious cycle. How? With **stop loss orders**.

As its name suggests, a stop loss order, like a market or limit order, is a specific order type that instructs your broker to automatically sell your stock if it falls to a price as specified by you.

Before I buy any stock, I first determine two very important things: My preferred entry price and my maximum loss threshold. Once I actually place a trade to buy a stock and the trade executes, I immediately place a stop loss order telling my broker to sell the stock if it falls below a certain price.

Cut your losses and let your winners run!

TRADING RULE #6

PYRAMID INTO YOUR POSITIONS BUT DON'T AVERAGE DOWN

One of the most important lessons I learned early on in trading was to never "average down", but instead to "average up." Put simply, averaging down is an old investing idea that says that you should add more shares to your trading position if the stock goes below your initial purchase price so as to improve your overall cost basis.

For example, if you purchase a stock at $50/share and it immediately drops to $48/share, the "average down" crowd would encourage you to add more. This is a dangerous idea and directly conflicts with the "pyramiding" (or "averaging up") strategy employed by many of the greatest traders of the past century.

Instead of adding more shares when a stock I am trading goes down, I usually sell it! When I buy a stock, I am speculating that it will rise, not fall, in price! Inversely, if the stock I have purchased rises above my entry price, it is only then that I add more.

Don't fall victim to buying more shares of a losing trade. It will not only hurt your trading account, it will set a poor psychological precedent for the future. Instead, only add more shares (or "average up") when you are right. This type of discipline will serve to magnify your gains when you are right and limit your losses when you are wrong.

Don't fall victim to buying more shares of a losing trade.

TRADING RULE #7

AVOID OPENING A NEW POSITION IN THE FIRST 30 MINUTES OF THE TRADING DAY

This is a rule that I came up with about five years into my trading career as I began to notice an extreme amount of volatility in the first 30 minutes of every trading day. After conducting some backtests on trading in the first 30 minutes, my results were astonishingly clear: Avoid buying stocks in the first 30 minutes of the trading day!

Why? From my own research, I realized that the excessive amounts of volatility in the first 30 minutes of the daily trading session was due primarily to trade executions initiated in the pre-market hours, as well as many random market orders being filled right as the market opens. This onslaught of trade executions upon the market's open serves to temporarily distort prices. Once the early spike in orders slows down, usually by the end the of the first 30 minutes, the price action typically becomes much more smooth and predictable, allowing for better trade executions.

While I rarely add a new position in the first 30 minutes of the market's open, I do often sell during that time. In fact, my favorite time to buy stocks is in the final 30 minutes of the trading session and my favorite time to sell stocks is in the first 30 minutes of the trading session.

My favorite time to buy stocks is in the final 30 minutes of the trading session. My favorite time to sell is in the first 30 minutes of the trading session.

TRADING RULE #8

IF YOU HAVE A SMALL TRADING ACCOUNT, CONSIDER OPTIONS, NOT PENNY STOCKS

New traders with small trading balances should focus on buying call options on high-quality stocks instead of risking everything on penny stocks.

After coaching many new traders over the years, I have found that most face the same problem: A small amount of trading capital. When you don't have much money to trade with, cheap penny stocks (stocks that trade for less than $5.00/share) look attractive. After all, it seems much more realistic for a cheap $1.00 stock to double than for a $50 stock to double. But this reasoning is faulty as witnessed by the number of penny stocks that fail every year.

If you have a small trading balance and are tempted to focus your efforts on buying penny stocks, DON'T.

Why? Because penny stocks are cheap for a reason, and they are much more likely to fall in price than to rise in price over time. You are much better off to invest some time learning about options trading. When used properly, options are far less risky than penny stocks and can give you exposure to higher-quality companies for a fraction of the price.

Put simply, new traders with small trading balances should focus on buying call options on high-quality stocks instead of risking everything on penny stocks.

TRADING RULE #9

AVOID STOCKS TRADING BELOW A DECLINING 200 DMA LINE

The 200 DMA (200-day moving average) line is a powerful metric that many financial institutions and hedge funds add into their trading algorithms. Most smart traders avoid stocks trading below their 200 DMA. But that caution is even more pronounced if the stock is trading below a **declining** 200 DMA.

There are only a handful of situations where I would consider trading a stock that sits below a declining 200 DMA line. A couple of these situations include:

1. If I am seeking a stock to sell short.
2. If the stock chart has formed a clear bottoming pattern and appears to be rising on strength.

It is tempting to trade stocks that are at, or near, their all-time lows. But most bottom-feeders rarely get lucky. In fact, trying to successfully buy stocks locked in brutal downtrends is a lot like trying to catch a falling knife. Somebody usually gets hurt. Many traders have seen their trading capital get wiped out by chasing downtrending stocks further down in price.

I prefer to trade stocks in clear uptrends, trading above a **rising** 200 DMA line.

I prefer to trade stocks in clear uptrends, trading above a *rising* 200 DMA line.

TRADING RULE #10

PAPER TRADE, PAPER TRADE, PAPER TRADE!

While no amount of paper trading can prepare you for the emotions that you will experience when trading real money, it *can* help you fine-tune your trading plan.

Before using your own hard-earned money to speculate on Wall Street, I strongly advise that you first test out your trading plan on paper for a period of months. In other words, act as if you are really trading and record your trades on paper. When your trading plan tells you to sell, close out the trade on paper and check your results.

While no amount of paper trading can prepare you for the raw emotions that you will experience when trading real money, it can help you fine-tune your trading plan.

Even better than simply recording your imaginary trades on paper, commit to learning from both your paper trading successes and failures.

Once you place real money on the line, the experiences and lessons you have learned from months of paper trading with your own trading plan will serve to give you confidence in your decisions.

There are several free online paper trading systems that can accurately simulate the market's action and give you a "feel" for trading before you commit your own hard-earned money. Do yourself a favor and paper trade your trading plan for a minimum of 90 days before placing your first real trade.

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We trade based on trends, not opinions. Market opinion and sales hype are a dime a dozen and can quickly lead investors to the poorhouse. Instead of relying on opinion, we follow trends.

We stay on the right side of the trend. When the trend begins to rise, we get in. When the uptrend ends, we sell. (*We also provide our premium members with actionable strategies for profiting in a downtrend.*)

Our premium members receive real-time actionable ideas and strategies designed to exploit both short-term and long-term trends.