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.

The information contained in this guide is for informational purposes only.

I am not a financial advisor. Any legal or financial advice I give is my opinion based on my own experience. You should always seek the advice of a professional before acting on something I have published or recommended.

Please understand that there are some links contained in this guide that I may benefit from financially.

No part of this publication shall be reproduced, transmitted or sold in whole or in part, or any form, without the prior written consent of the author.

Users of this guide are advised to do their own due diligence when it comes to making business decisions and all information, products, and services that have been provided should be independently verified by your own qualified professionals.

By reading this guide, you agree that myself and my company is not responsible for the success or failure of your business decisions relating to any information presented in this guide.
# CONTENTS

ABOUT THE AUTHOR.............................................................................................................................................. 4  
WHAT IS AN EDGE? ........................................................................................................................................... 5  
MANAGING YOUR EXPECTATIONS ....................................................................................................................... 7  
CAN TRADING REPLACE MY DAY JOB? ................................................................................................................. 8  
CAN I BUILD MY WEALTH THROUGH TRADING? ................................................................................................. 9  
WHAT IS TREND FOLLOWING? ........................................................................................................................................ 10  
WHAT ISN’T TREND FOLLOWING? ........................................................................................................................................ 11  
THE 5 PRINCIPLES OF TREND FOLLOWING ........................................................................................................... 12  
BUY HIGH AND SELL LOW .................................................................................................................................... 13  
JUST FOLLOW PRICE ............................................................................................................................................. 15  
RISK A FRACTION OF YOUR EQUITY ................................................................................................................... 17  
NO PROFIT TARGETS ............................................................................................................................................ 19  
TRADE ALL MARKETS ........................................................................................................................................... 22  
WHAT IS A TREND FOLLOWER’S EDGE? ............................................................................................................. 26  
DISCRETIONARY TREND FOLLOWING STRATEGY ................................................................................................. 28  
TREND FOLLOWING STRATEGY – WINNING TRADES ............................................................................................ 30  
TREND FOLLOWING STRATEGY – LOSING TRADES ............................................................................................... 32  
SYSTEMATIC TREND FOLLOWING STRATEGY .................................................................................................... 34  
ED SEYKOTA: THE GREATEST TREND FOLLOWER .............................................................................................. 35  
RECOMMEND READINGS ..................................................................................................................................... 37  
FINAL WORDS FROM RAYNER ............................................................................................................................. 41  
THANK YOU SO MUCH! ........................................................................................................................................ 43
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, 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% draw down.

This guide lays the foundation to trend following and is a guide to get you started to being 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.
What is an Edge?

Before you even start trading you must have an edge in the markets. If you do not have an edge you will lose in the long run even if you have the best trading psychology or money management.

To put it simply an edge is a positive expectancy whereby if you keep doing the same thing many times, you will come out ahead or in profits.

\[
\text{Expectancy} = (\text{Probability of Win} \times \text{Average Win}) - (\text{Probability of Loss} \times \text{Average Loss})
\]

An example is the casino business where the house has a few percentage points advantage over the player, called an edge. The house cannot guarantee it will win the next hand but it is certain that it will win over the long run. This is why you see year after year, casinos are very profitable despite not knowing whether they will win the next hand. Why?

Law of Large Number

By having an edge you also need the law of large number for your edge to work out. Having an edge doesn’t guarantee you will be profitable in the short term but it guarantees that you will come out ahead over the long term.

This is why casinos are profitable every year because they play thousands if not millions of hands with an edge over the players.

This goes the same for trading. If you have an edge in the markets, you too need to allow the law of large number to work in your favor to be profitable.

Examples of different type of edge in the markets:

- **Trend following**: These strategies follow general trends in a set of data by comparing historical and current prices, profiting whether prices go up or down

- **Mean reversion**: The philosophy behind these strategies is that stocks have an average price over time. They use historical data to compute an average price
Arbitrage: These strategies depend on speed to catch price imbalances between different markets

Scalping: These strategies act like market makers, and make small profits on differences in bid/ask spread

High frequency trading: Operating at the millisecond level, these strategies use arbitrage or scalping techniques at high volumes and super fast speeds

Coming up I will share with you the realities of trading so you can better manage your expectations.
You probably entered the trading business thinking that you can make a living with a few mouse clicks, on a lovely beach in Hawaii. Yes, that is possible, but not without years of hard work and commitment.

Trading is unlike an 8-5 job in the office. You are dealing with probabilities and never certainty. You need an edge and allow the law of large number for your edge to play out in the markets, just like the casino example you read earlier.

This means that you need to consistently execute your trades day in and day out for your edge play out. You cannot have a few losing trades and say this trading system doesn’t work and hop on to something else. Because if you have an edge in the markets, you will know that each losing trade will bring you closer to the next winning trade.

So before I begin, I would like to manage your expectations to the reality of trading. These are the two commonly asked questions by traders I’ve met:

- Can trading replace my day job?
- Can I build my wealth through trading?

Let’s find out!
CAN TRADING REPLACE MY DAY JOB?

This is a question most traders want to know and the answer is yes but it’s not what you think. The cold hard truth is that if you want your trading to replace your day job in terms of monetary income, then you are saying that you expect the markets to reward you every month.

If that’s the case then it means you need your edge to play out positively over a period of one month. For that to be possible you need to generate a large number of trades in a month to allow your edge to play out. To put things into perspective, you need to be trading at least 100 times a month to have a good chance of being profitable every month.

This is not just blindly doing 100 random trades, you need to have a statistical edge in the markets after accounting for transaction costs.

If you want to look to replace your day job with trading, then you should be looking to be an intraday trader or scalper to generate high frequency of trades for your edge to play out over a period of one month.

Taking things to an extreme, if you have an edge and can generate high frequency of trades (more than a thousand) every day, you can even be profitable every day, just like Virtu Financial.

So yes you can replace your day job with trading, but it will not be easy as you need to have high frequency of trades and encounter higher transaction costs. Also, you need to find the time to learn intraday trading outside of your office hours.
CAN I BUILD MY WEALTH THROUGH TRADING?

A valid question and the answer is yes. If you are looking to build wealth through trading then your horizon is looking in terms of the next 5 years or more.

Now using the law of large number, you don’t have the same restrain earlier to generate a large number of trades in a month. Now you can generate a large number of trades over years instead.

Assuming you are starting off with $10,000 and want to grow your money by 15% a year over the next 10 years, after 10 years, your trading account will be around $40,455.

And this is not taking into consideration adding funds into your trading account.

If you have a statistical edge in the markets, making 15% a year trading is definitely possible. Furthermore you can keep your day job to pay the bills and allow trading to grow your wealth.

So yes it is definitely possible to grow your wealth over time and is definitely a less stressful approach compared to having to generate an income from trading.

An excellent way to grow your wealth is by adopting a trend following approach which I will cover next. Are you ready?
WHAT IS TREND FOLLOWING?

Split up the two words and you will understand what trend following is about. ‘Trend’ is when price moves in a single direction up or down over a period of time. ‘Following’ is basically to follow. Thus trend following is simply following the direction of price. It is reactive in nature and does not seek to predict markets or price levels.

Trend following has a set of guided principles that allows a trader to build their own trend following trading system to fit their personality. It has been used by traders over the last 100 years, and is a profitable trading approach that has withstood the test of time.

- Jesse Livermore, the most famous speculator in history made $100 million during the Great Depression.
- Richard Dennis, 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.
- There have been numerous academic studies that prove trend following has a statistical edge in the markets. You can check out “Two Century of Trend Following” by M Potters and “Trend Following with Managed Futures” by Alex Greyserman.
WHAT ISN’T TREND FOLLOWING?

Trend following isn’t a fixed trading system but rather a set of guiding principles that produces trend following trading systems. You can have two traders adopting a trend following approach in the markets but have vastly different entries and exits.

Still both of them can profit in bull and bear markets, because of adopting the principles of trend following.

Trend following isn’t the Holy Grail. Nothing will ever be; the closest thing to a Holy Grail is to have a trading plan that suits your personality.

Likewise, trend following is not:

◉ Scalping
◉ Intraday trading
◉ Investing for years
◉ Placing one big trade and hoping for the best
◉ Predicting where the markets will reverse
◉ Waiting for confirmation before placing a trade
◉ Trading candlestick patterns
◉ Trading Fibonacci patterns
◉ Trading on fundamental news

Now that you have an idea of what trend following is about, let’s go into detail on why it is such a profitable approach to trading the markets.
The 5 Principles of Trend Following

You have probably heard me saying that trend following follows a set of guiding principles, but what are they? Now let me introduce to you the 5 principles of trend following.

1) Buy high, sell low
2) Just follow price
3) Risk a fraction of your equity
4) No profit targets
5) Trade all markets

Although you may not be a trend follower, you can still apply these principles to your trading and who knows you may find improvements in your trading.

And if you haven’t realized, these trend following principles go against traditional school of thought. Some of which are

◉ Buy low and sell high
◉ Focus on a few markets
◉ Know your profit targets
◉ Calculate your risk to reward

These traditional school of thought didn’t work for me at all, and I simply ignore them. There’s no right or wrong here, but rather what works for you.

Let’s now go deeper into each of these 5 principles and learn how it can improve your trading.
BUY HIGH AND SELL LOW

Since you were young, I’m sure your parents have instilled the value in you to always buy cheap and sell dear. The typical scenario is shopping at the supermarket and looking for value buys, promotional offers, and what not.

If the item you want is being priced higher than usual, you would not buy it or find some other alternatives. And this is the exact mindset you bring into trading, always looking to buy low and sell high. But have you thought, what if you bought high and sold higher, how would you fair?

![Price looking overbought, best to stay out as it could reverse anytime](image1)

![Was overbought](image2)

![But became more overbought by another 1200 pips](image3)
The message is clear, what is high can go higher and likewise what is low can go lower. The market is never too high to long or too low to short.

If you feel that you are always hesitating to pull the trigger because the market is overbought or oversold, don’t be, because trend followers are doing what you are afraid of, longing into the highs and shorting into the lows.
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 judgement. 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 for your losses

Instead...

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

Here's what I mean:
What's the takeaway?

If you notice 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.

Don’t predict how high or how low the markets can go, it doesn’t care what you or I think. It simply goes where it wants to, determined by the mass psychology of the players in the market. Accept that fact.

And this is what trend following is all about. We follow the trend! I don’t predict how high the markets can go or how low it can drop. If price is trading higher, I will look to long. Likewise if price is trading lower, I will look to short. Multi-year highs or lows, I’m still coming for you.

Try This!
Every time you have a hunch that the market will reverse, jot it down on paper. After 30 attempts, look back at how accurate your prediction is. You may be surprised by your results.
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 +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.

<table>
<thead>
<tr>
<th>% Loss Of Capital</th>
<th>% Of Gain Required To Recover Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>11.11%</td>
</tr>
<tr>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>30%</td>
<td>42.85%</td>
</tr>
<tr>
<td>40%</td>
<td>66.66%</td>
</tr>
<tr>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>60%</td>
<td>150.00%</td>
</tr>
<tr>
<td>70%</td>
<td>233.00%</td>
</tr>
<tr>
<td>80%</td>
<td>400.00%</td>
</tr>
<tr>
<td>90%</td>
<td>900.00%</td>
</tr>
<tr>
<td>100%</td>
<td>Broke!</td>
</tr>
</tbody>
</table>

Looking at the figures above, if you lose 50% of your capital, you need to make back 100% to breakeven! Yes, you read right. 100%, not 50%.
This is why you always want to risk a fraction of your equity, especially when your winning ratio is less than 50%.

Personally, I win about 30% of my trades and I don’t risk the arbitrary 2% on each trade. In fact I risk no more than 1% on each trade in my trading.

By keeping risk to 1% on each trade, my statistics show that it is unlikely to encounter a drawdown of 50% or more. However, if I choose 2% instead, there is a slight probability I may encounter a 50% drawdown, which is something I’m not comfortable with.

The question of how much to risk on each trade is dependent on your winning ratio, risk to reward, and your risk tolerance. If you want to calculate your risk of ruin, check out this risk of ruin calculator here.
No Profit Targets

Yes, I know, that was how I reacted the first time I heard that statement. Although trend followers have no profit targets, they do trail their stops accordingly and let the market hit their stop loss rather than pre-defining their profits in advance.

Contradict that with what is taught out there, traders usually have a fixed profit target in mind. Some could be an arbitrary number of 1 to 3 risk reward ratio, some target the nearest support & resistance levels, or some target the Fibonacci extension.

Again, there’s no right or wrong here; if it works for you, then great. If it doesn’t, then you should do something about it, right?

Now let’s take a moment and think what having a profit target really means. By having a profit target, you are, in fact, limiting your profits. Because you have a planned exit for your winning trades, isn’t that trying to limit what the market wants to give you?

By having a fixed profit target, it’s as good as saying, “Ah, I’m predicting the market will reverse at this point, thus I better get out at this exact level.” But you just saw earlier that what’s high can go higher and what’s low can go lower. And by having a fixed profit target, it goes against the earlier principle of trend following.

You may argue, but what if the market does reverse back to my entry and stop me out? That’s true and likewise, what if the market goes in your favor by 1000 more pips?

“The difference between a profit target and a trailing stop is the willingness to ride your profits run.”
Realistically speaking, you cannot base a trading system on just a handful of trades. You need to judge it based on at least 100 trades to determine whether you have an edge in the markets.

Likewise, just because you get stopped out of your trades a few times while attempting to let it run, it doesn’t mean it’s not a viable approach. Do it a 100 times and let the numbers decide for itself.
Some ways to trail your stoploss are:

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

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 low winning rate but high reward to risk.
This is where trend following really stands out on its own. Compared to other trading methodology, which focuses on a few markets or just one market, trend followers trade all markets.

Trend following doesn't focus on a single sector. It looks at everything across the board, currencies, agriculture, metals, bonds, energy, indices, orange juice, pork bellies, etc. Basically, anything that’s liquid enough, trend followers will be involved with it.

As you have probably heard, the market spends more time ranging than it is trending. Thus, by increasing your exposure to all markets around the world, you’d greatly increase your odds of capturing a trend, right?

If you recall, most major currencies were ranging with extreme low volatility during the 1st half of 2014.

Do You Know?
Hedge funds that adopt a trend following approach trade as many as 100 markets?
Without volatility in the markets, it is frustrating to trade because price is simply whipping back and forth with no clear direction. This made life very difficult for a lot of Forex traders, especially those trading the higher time frames.
NOW WHAT ABOUT TREND FOLLOWERS?

Because trend followers trade all markets, there are usually other sectors in the markets trending while the Forex markets are ranging.
You saw that when the Forex markets are in a lull period, other sectors in the market like agriculture, indices, and bonds are trending nicely, with good volatility to trade.

And this is one of the key reasons trend following has withstood the test of time; be it 100 years ago or now, it is still a profitable method to trade the markets.

Because trend followers do not marry themselves to a certain market, but trade all markets. And it is difficult to have all markets ranging or have low volatility occurring at the same time.

So do you now understand these 5 principles behind trend following?

Now I will explain to you the edge a trend follower has and why it is profitable over the long run, over the last 200 years, in fact.

**TIP:**
By increasing the number of uncorrelated markets you trade, you are effectively diversifying risk in your portfolio.
Aside from the research studies I mentioned earlier, is there any logic to why trend following has an edge in the markets?

Let’s imagine this, a particular stock called Orange has been trading higher over the last 6 months, increasing by over 50%. Orange currently trades at $150 and you decide to short it with a target profit of $140 and no stop loss.

You keep applying this approach to the different markets out there, looking for a small profit target with no stop loss. What do you think will happen over the long run?

You may get lucky the first few times, but after a series of trades, you will agree you will eventually blow up your account, right?

Now what if I am on the opposite side of your trade instead? I may lose a few times consecutively but I know that all I need is one trade to make it all back. And this is the very same trade that caused you to blow up your account earlier. Can you see the edge of a trend follower now?

Academics also preach that the markets are efficient and have a normal distribution curve. However, if that’s the case, then events like the crash of ‘87, the dot com bubble, 2008 financial crisis, etc. shouldn’t have happened.

To put things into perspective, the 2008 financial crisis was a 25 sigma event. What does that mean? It means the odds of it occurring is so infinitely small, it should have never happened at all. To give you an analogy, a 25 sigma even is like winning the lottery 22 times in a row! What are the odds of that?
So now that you can throw out the normal distribution curve that academics preach, *then what should the curve really look like instead?*

![Diagram comparing normal distribution to fat-tailed distribution]

In a more practical word, the tails are much fatter and this means that big events like the financial crisis, etc. occur more often than not. And the thing about trend following is that it thrives during volatile periods like these.

So when you have fat tails events occurring more often than anticipated, it presents money making opportunities for trend followers.

You can read “*Trend Following with Managed Futures*” by Alex Greyserman, which explains how trend followers deliver crisis alpha.

So now you know trend following has a statistical edge in the markets, it’s time to learn a simple trend following strategy that has an edge in the markets.
DISCRETIONARY TREND FOLLOWING STRATEGY

Before I continue, most traders will skip to this part of my guide and find out what this trading strategy is. But one thing I have learned through the years of trading is that you cannot simply copy someone else’s trading strategy and use it exactly.

You will most likely fail as you do not have the conviction behind the strategy or it may not fit your personality. Instead what you should do is to tweak that trading strategy and mold it to your own style and personality.

Now that you know the 5 principles behind trend following, I will share with you a trend following strategy that incorporates all 5 elements of it. Are you ready?

RISK MANAGEMENT

You must risk a fraction of your equity on each trade to survive the inherent draw downs. 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

TRADING STRATEGY

If 200ma is pointing higher and price is above it, then it's an uptrend.

If it's an uptrend, then wait for 'two test' at the dynamic support (using 20 & 50 period moving average).
If price test dynamic support twice, then go long on the third test.
If long, then place a stop loss of 2ATR from your entry.
If price goes in your favor, then take profits when candle close beyond 50ma.

GUIDELINES

◉ Do not shift stop loss to break even. You either get stopped out on the initial stop loss or the trailing stop loss.

◉ Trade as many markets as possible with low correlations.

◉ Risk no more than 1% of your equity on each trade.

◉ Continue trading even if price has tested the zone many times.

These are not hard and fast rules. Some considerations you can ask yourself:

1. Do you wait for 'confirmation' before entry?
2. How do you exit your trades?
3. What time frames are you trading on?
4. Which markets are you including in your portfolio?

There you have it. A complete Trend Following strategy 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.
TREND FOLLOWING STRATEGY — WINNING TRADES
Find out how I had a **1 to 50** risk reward ratio on a Usdjpy trade.
TREND FOLLOWING STRATEGY – LOSING TRADES

1st test

2nd test

Possible entry

Stopped out

Possible entry and Stopped out

1st test

2nd test
If you follow these trend following principles closely, you can expect to win about 30% of the time. *What, 30% only!?* Yes, that’s right, 30%.

You will still be profitable because your winning trades will be much bigger than your losing trades. Cut your losses and ride your profits!

“How often you win isn’t important. How much you win is.”
SYSTEMATIC TREND FOLLOWING STRATEGY

In his book, Following the Trend, Andreas Clenow reveals his systematic Trend Following strategy.

If 50 ema is above 100 ema, then look to long.
If you're looking to long, then wait for price to close above the 50 day high.
If price closes above the 50 day high, then enter your trade at the next open.
If trade is entered, then have a stoploss of 3 ATR away from its peak reading.
Vice versa for shorts.

An example:

You can learn more from his book here.

The fastest way to pick up trading is to learn from the best traders in this world. If you are lucky, they may take you under their tutelage. But if you are not, you can still get into their minds by learning from the things they say.
1) If I am bullish, I neither buy on a reaction, nor wait for strength; I am already in. I turn bullish at the instant my buy stop is hit, and stay bullish until my sell stop is hit. Being bullish and not being long is illogical.

2) The feelings we accept and enjoy rarely interfere with trading.

3) Systems don’t need to be changed. The trick is for a trader to develop a system with which he is compatible.

4) It can be very expensive to try to convince the markets you are right.

5) There are old traders and there are bold traders, but there are very few old, bold traders.

6) I would add that I consider myself and how I do things as a kind of system which, by definition, I always follow.

7) Systems trading is ultimately discretionary. The manager still 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.

8) Trying to trade during a losing streak is emotionally devastating. Trying to play “catch up” is lethal.

Do You Know?
Ed Seykota managed to achieve a return of 250,000% over a 16 year period
9) The elements of good trading are: 1. Cutting losses. 2. Cutting losses. 3. Cutting losses. If you can follow these three rules, you may have a chance.

10) Losing a position is aggravating, whereas losing your nerve is devastating.

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

12) 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.

13) If you can’t take a small loss, sooner or later, you will take the mother of all losses. Risk no more than you can afford to lose, and also risk enough so that a win is meaningful.


15) I usually ignore advice from other traders, especially the ones who believe they are on to a “sure thing”. The old timer, who talk about “maybe there is a chance of so and so,” are often right and early.

16) I set protective stops at the same time I enter a trade. I normally move these stops in to lock in a profit as the trend continues. Sometimes, I take profits when a market gets wild. This usually doesn’t get me out any better than waiting for my stops to close in, but it does cut down on the volatility of the portfolio, which helps calm my nerves.

17) 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.

18) The key to long-term survival and prosperity has a lot to do with the money management techniques incorporated into the technical system.

19) To avoid whipsaw losses, stop trading.

20) Pyramiding instructions appear on dollar bills. Add smaller and smaller amounts on the way up. Keep your eye open at the top.

21) Markets are fundamentally volatile. No way around it. Your problem is not in the math. There is no math to get you out of having to experience uncertainty.

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

23) The positive intention of fear is risk control.
RECOMMEND READINGS

TREND FOLLOWING

Trend Following (Updated Edition): Learn to Make Millions in Up or Down Markets

Ever wonder who is at the opposite end of the trade when Bear Stearns and LTCM collapsed? This book not only tells you but explains what trend following is all about. It provides facts and track records of the biggest hedge funds that employ the trend following approach to their trading.

Following the Trend: Diversified Managed Futures Trading

99% of all trading books can’t back their strategies with cold hard statistics. This book is the 1%. Need I say more?

The Complete TurtleTrader: How 23 Novice Investors Became Overnight Millionaires

A true story on how a group of people are selected to learn how to trade. They had a 2 week crash course on trading and are left on their own afterward, the result? They made millions.

This book even includes the trading strategy they used!

INTERVIEW WITH TRADERS

Market Wizards, Updated: Interviews With Top Traders

This is the book that will get you up close and personal with super star money makers. Including the one about the trader who turned $30,000 into $80 million, the hedge fund manager who’s averaged 30% returns every year for the past twenty-one years, and the T-bond futures trader who parlayed $25,000 into $2 billion!
The New Market Wizards: Conversations with America's Top Traders

The follow up of Market Wizards. Entertaining, informative, and invaluable.

Pit Bull: Lessons from Wall Street’s Champion Day Trader

Welcome to the world of Martin “Buzzy” Schwartz, Champion Trader – the man whose nerves of steel and killer instinct in the canyons of Wall Street earned him the well-deserved name “Pit Bull.”

Reminiscences of a Stock Operator

This most widely read, highly recommended trading book ever. Generations of readers have found that it has more to teach them about markets and people than years of experience. This is a timeless tale that will enrich your life, and your portfolio.

TECHNICAL ANALYSIS


Supported by extensive statistical analysis of the markets, it gives you a realistic sense of how markets behave, when and how technical analysis works, and what it really takes to trade successfully.


If you want to get started on technical analysis, this is the book to read.

Mind over Markets: Power Trading with Market Generated Information

Market Profile is used widely by professional scalpers. If you aspire to be one, you need to read this.
OTHERS

One Good Trade: Inside the Highly Competitive World of Proprietary Trading

If you have interest in working for a proprietary trading firm, or want to be an intraday trader, this book will tell you what it takes. Also, it tells you how professional traders read the depth of market.

Trading in the Zone: Master the Market with Confidence, Discipline and a Winning Attitude

An excellent book on trading psychology.

For more resources on trading, you can check out this post [here](#).

BLOGS

Andrea Clenow's Following the Trend - Systematic Trend following

Jon's Alpha Capture - Trend Following on stocks

Steve the Trendfollower - Trend Following on stocks

Au.Tra.Sy - Systematic trading research and development, with a flavor of Trend Following

Steve's Newtraderu - Swing trading using principles of Trend Following

TOOLS

Tradingview - Charting platform for wide variety of financial instruments

Stockcharts - Charting platform for stocks

Sector SPDR - Track the 9 sector in S&P

Barchart - Futures heatmap

Finviz - Stock screener
RESEARCH PAPERS

Two Centuries of Trend Following
In Search of Crisis Alpha
Practical Examples of Trend Following
Does Trend Following work on stocks?
Analysis of Trend Following Systems
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 you never ask, you will never know, right?
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.

I appreciate each and every one of you for taking time out of your day or evening to read this, and if you have an extra second, I would love to hear what you think about it.

Please leave a comment, or if you’d rather reach me in private, don’t hesitate to shoot me an email. I read each and every single comment and email, so don’t be afraid to say hi!

Lastly, if you haven’t already, you can follow me on Twitter (@Rayner_teo), and join in on the conversations going on right now on my Facebook Group.

Thanks again, and I wish you nothing less than success!

Rayner Teo

“I’ve more than 500 trades that hit my stop loss. I’ve lost 50% of my trading capital. More than 30 times I thought I will hit a home run only to be stopped out. I’ve failed over and over again in trading. And that is why I succeed.”