

Scalping Futures for Income

Listen or use at own risk

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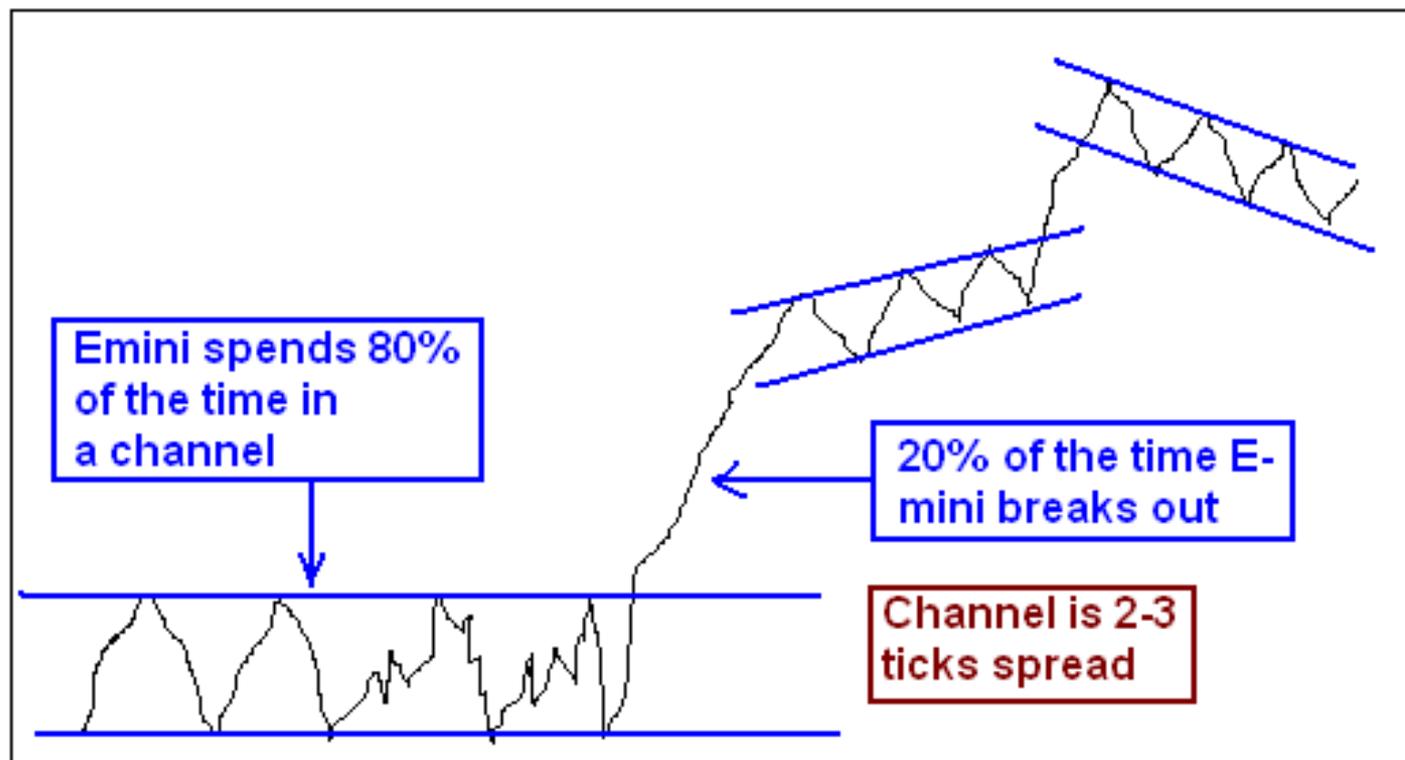
Scope of This Talk

For several months, I have been watching a commodity school teacher (trader) scalping E-mini everyday for 2 hours, makes \$400-1500 per day, he rarely has a daily loss. It looks easy, fun, and painless. Is this possible? Is this just luck or unreal?

- E-mini properties
- Details of the scalping system
- My observations
- Issues of scalping
- Define trail vs. define profit
- Thoughts on order fill
- What do I learn

E-mini Properties

- Margin: About 3k/contract, 1 tick=0.25=\$12.5, commission=\$5
- E-mini spends 80% in channeling, 20% breakout.
- Trade 3 contracts/position with 2 ticks “define profit”, i.e.
ProfitAfterCommission=3x(2x\$12.5-5)=\$60/trade
- Each position lasts from several seconds to 1-2 minutes.



Details of the Scalping System

	How	Rationale
Determine near-term trend from 1-day, 3min, 1min charts to place long or short order at “recoil” (3 contracts/trade)	Oscillator, MACD, Fibonacci retracement.	Standard technical analysis
Once executed, immediately submit a close position order at 2 ticks profit (define profit)	Trading platform seems automatically do this.	Sure profit faster, trade again soon
Therefore profit is fixed at 2 ticks, lots of commission.	A close position order is always in place	Quick turnaround
No mechanical stop	Keep stop in mind	Quick closing
If not closed in 1-2 min, close at less profit (i.e. 1 tick, or zero) If loss appears, close quickly at a small loss. Or double/triple same positions	Trading platform allows graphical order change. Also multiple positions entry and tracking.	Mystery: Not clear how the trader makes such judgement.

My observations

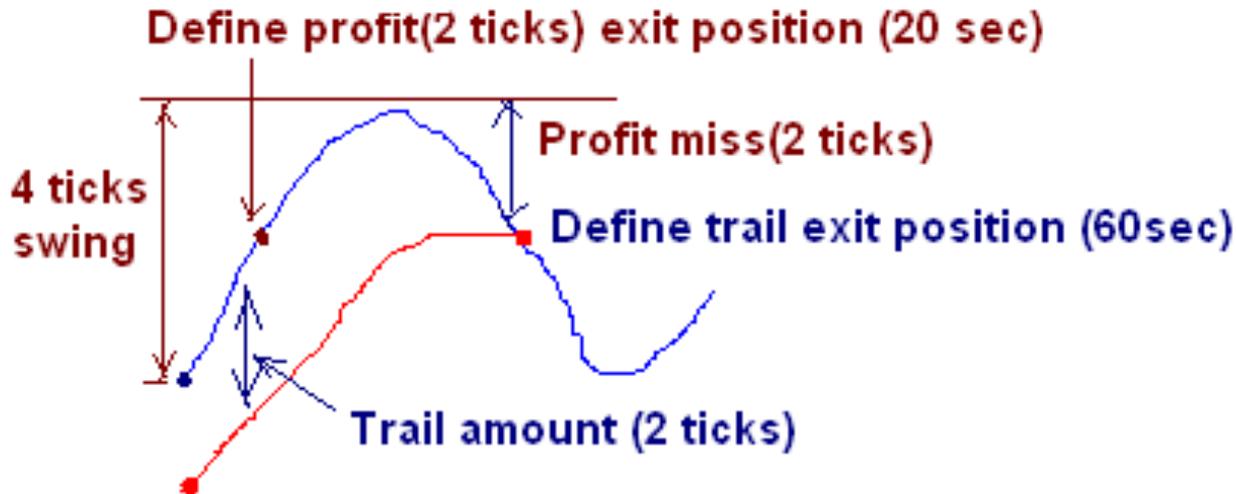
- The trading platform is a demo platform, however, the order fill seems to be more realistic than another demo platform.
- Trade only 0.5-1 hour before market opens at 9:30am. Target is \$350 profit before 9:30am.
- Stop trading between 9:30-9:45am to avoid wild price movements, also mark the price range in this 15-min period.
- Stop trading if a major report (e.g. unemployment) is pending.
- Trade another 0.75-1 hour after. Target is \$1000 profit. It seems that the result is better after seeing the market opening price movements.
- After several months of observing, rarely does the trader lose, typically profit is \$400 for a bad day, >\$1200 for a good day. (before commissions)
- He goes short 70-80% of the time, but the market has been on a bull run, he really knows how to avoid being caught bad. I don't think he is just lucky.
- During the trading, the trader talks, gets coffee, goes to bathroom, answer phone calls, swing trades currency and crude futures, amazing.

Issues of scalping

- **(Not so bad)** Profit of each trade is fixed to 2 ticks, very limited. So there is no “occasional” excess profit to help offsetting trades that lose money.
- **(Bad?)** Order fill (buy at bid, sell at ask) may not happen as quick as desirable. Because of extreme liquidity of E-mini, it does get filled but at a **much slower** pace than demo'ed.
- **(Not so bad?)** Commission as a percentage of profit is high, at least 20% and is likely a lot higher, say 33%.
- **(Not so bad)** Since there is no mechanical stop, trader must have good self discipline and really stay “cool”.
- **(Mystery?)** The trader appears not having any “runaway position” (those occurring 20% of the time, quick big losses).
- **(Serious)** If runaway occurs, i.e. when price moves out of a channel, the loss can be much more than 2 ticks, probably the whole day's profit may be **wiped out**.
- **(Mystery?)** The trader appears having an unusual high chance of being correct about short term price movement (better than 80% correct). A typical should be 50-50 or 60-40.

Define Trail vs. Define Profit

- Most trading system uses a “trailing stop” as “exit trigger”:
 - Limit loss
 - Give room for profit to run.
 - Longer holding time of the position, higher risk.



What do I learn?

- His trading method helps my views/methodology on trading crude futures.
- Money management (stop, trend) seems to be the major factor making it generally profitable, not trading system signals (indicators).
- Do not worry about “leaving money on the table”, making only small fractions of possible profit (e.g. ATR) is already profitable enough.
- Trade more than 1 contract, 3 seems optimum.
- Avoid the first 15 minutes of “market opening” and pending news if to scalp.
- Need to decide quick, do not hesitate. Doing more in less time is better.
- Shortening the holding time (by “define profit”) is advantageous: risk exposure reduction, saving time to go for next opportunities.
- Going “short” is as viable as going “long”.
- Take loss quickly, especially when it is small.
- Short term trend prediction is **IMPORTANT** and seems **POSSIBLE**.
- Entry point is at “recoil”, not quite momentum play, nor contrarian play.
- Use Fubonacci retracements and extensions.
- Scalping futures can **NOT** “get rich big time or quick” but may be good enough to make a living. Also see my statistics.