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Nick McDonald is a leading independent trader with a global following via the company he founded, www.tradewithprecision.com. A specialist in technical trading strategy for any market and any time frame, Nick possesses a unique approach to modern technical trading which forms the basis of the strategies that he teaches. Nick is in high demand as a speaker on the global trading circuit with speaking engagements on multiple continents each and every year.

The Path to Trading Success

PART 3: WHICH MARKET SHOULD YOU TRADE?

In last month's article we discussed the importance of choosing a trading style (ie swing or day trading) which was best suited to your personality. We reached the conclusion that there is no 'best' style of trading, there is only the style which is best suited to you. Today we will discuss six criteria to assist you in assessing which market is best suited to you.

➔ Establishing which market you should trade is similar to the trading style discussed in part 2 of this series in that there is no 'best' market to trade. Provided you are trading a market that is best suited to you personally then there is no reason why you can't be profitable in that market. The below six criteria will assist you in assessing which market is best suited to you:

1. LIQUIDITY
Liquidity (in the main sense we as traders are concerned) refers to an asset's ability to be brought/sold without causing a significant movement in the price and without therefore too much slippage (trading terminology for getting a worse price). For example within the stock market there are very liquid stocks such as Apple and at the other extreme very illiquid penny stocks.

When commencing your trading career you may choose to only trade small size therefore liquidity is unlike to be an issue for you. However, as your trade size increases liquidity will start to have an effect, therefore it's wise to plan ahead and master your craft on a market which you are unlikely to outgrow.

2. VOLATILITY
Volatility is a measure of price variation of a market over time, for example a highly volatile market would exhibit wild swings in price. Typically the best markets to trade are those which have the most movement. Attempting to trade markets which are flat with no volatility can be extremely difficult (unless using certain option strategies). Equally difficult can be attempting to trade wildly volatile markets that are swinging up and down with no clear direction.

3. MARGIN/LEVERAGE
Leverage is the ability to control an asset with a small initial outlay. For example when you buy a futures contract you aren't required to put up the entire contract's value, instead you are only required to put up a small deposit (known as the margin). Margin levels will vary between markets, ranging from 4:1 for equities right up to 400:1 for forex (maximum leverage varies from country to country). Trading a highly leveraged market can be a smart way for a trader to utilise their capital in the most efficient and profitable manner but it can also be a double edged sword. Without strict risk and money management rules a trader can lose more money than they have in their trading account. However, treated with the respect it deserves and a solid risk management plan, leverage can be a powerful tool.

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4. CAPITAL REQUIRED
The amount of capital required to trade a particular market will be dependent upon its value and margin requirements. A trader must ensure their available trading capital is sufficient enough to safely trade their market of choice. If you only have $5000 trading capital then trading a futures contract at $5-10 per tick maybe possible but can you really trade it safely with correct money management rules? In this case spot forex or micro-futures contracts might be a better option where lower stake trades are possible.

5. PERSONALITY
Do you thrive under pressure, or does it cause you to make errors? Can you quickly and easily forget the past and move on with a clear mind? Or do you tend to brood over your losses and need a greater time to clear your head? Every trader needs to assess whether their personality is better suited to a slow moving market or a faster paced market.

6. EXCHANGE TRADING HOURS
Depending on your lifestyle demands there may be times of the day or night which are more conducive for you to trade. For example if you work full time and have a young family then realistically the best time for you to trade may be after the kids have gone to bed between 8pm – 10pm. If this is the case then you need to find a market that fulfils the above five criteria at that time of the night. What we mean here is that you may want to trade the mini-Dow futures contract and during the US cash market hours it would satisfy the above five criteria but at night when you are available to trade the liquidity and volatility criteria may not be satisfied and therefore this market won't be best suited to you and your lifestyle.

CONCLUSION
Whether you are new to trading or have been trading for years and not getting the results you desire we strongly encourage you to take the time to do the above assessment of the markets you currently trade. Finding the market that is best suited to you could be all it takes to turn your trading profits around.

NEXT MONTH
Now that you have established which style and which market you should be trading for your particular circumstances, next month we will assess one of the commonly misunderstood topics; that is the difference between technical analysis and trading strategy.