

## j2AlgoTrader – New trader and APEX notes – Outline

### New Trader:

#### Futures Trading

What is it?

How does it work?

What is Intraday trading versus Interday trading?

What is a margin account?

How does Intraday vs Interday impact the required balance in the account for margin coverage?

Example: ES \$500 Intraday per contract margin or \$12,500 for Interday

What is a margin call?

If you have a \$500 account balance and enter an ES trade and it moves one tick “against” you and for our example the price just stayed there stuck, your account balance is now \$500 – commission – \$12.50 for the tick. You are now below the minimum required account balance to be in a trade for an ES futures contract and the brokerage would start seeking you out ... during that business day ... to put more money in by wire or similar to become greater than \$500.

Take that a step further and your 1 contract trade is still open and the market continues to move against you, the brokerage (depending on your credit) may allow your trade to continue, but they would again be seeking you out to “call the margin” and put money in to cover to so that your running “Unrealized balance” remains above \$500 for that one contract.

That is why you cannot really trade with a minimum account balance style approach. For ES, a rule of thumb would be 10x the intraday minimum margin, so \$5000 for a healthy account to sustain a trade, make a profit, or invariably once in a while sustain a loss. For MES, \$500 for 1 contract will work as a start.

Are there other options out there to trade without risking my money?

Yes, you can go to NinjaTrader and get a simulator eval account.

Are Sim accounts the same as real accounts for transactions?

No, not really. They are close, but when you inflect the brokerage dynamic, actual transactions are different than simulated?

What does that mean, “the brokerage dynamic”?

You are not trading directly with the Chicago Merchantile Exchange, NASDAQ, or NYSE.

What this means is that you put an order in to your brokerage house and that brokerage chooses how to fill your order with their inventory or with a new inventory transaction.

Wait what?

Yes, if you place a market order to the brokerage that they feel is “insignificant” and they have inventory of the Instrument you are requesting to buy or sell could be filled out of their own “on hand inventory” of surplus contracts. So, if you place a Market Entry or Exit, they can fill it with whatever they wish and you

have no recourse. It may or may not be the actual ticker Bid Ask you actually see on your trading software.

OK, so What is a Market Order? Or better stated, what kinds of orders can we place?

Well, the basic Buy or Sell of a contract or contracts is the most basic transaction. That is subject to the above variation in results (called "Slippage" in the industry). These can be place for Entry positions, Stop Loss, Profit Target, and Exit trades.

If not a Market order, then what?

The next option is Limit orders which come in a variety of options. A straight limit order says, Enter, Stop, Profit, or Exit at this specific market price and no other. This sounds great and often is. The risk is in a fast moving market that mandatory best friend, your brokerage, may not be able to get your limit order filled before the market leaves your price point. If that is an entry, no big deal. If that is a stop or an exit, this could be very big deal, so you need to either be paying attention or write your software to adjust to that circumstance.

Do you have to manually manage Stops and Profits and Entries and Exits?

The answer is mixed. Entries and Exits that are not a part of a Limit or Market set order are individual "entities" and will remain with the brokerage until you cancel or the order parameters are met to cancel it...usually orders are GTC or Good Til Close (of trading that day).

What about Stops and Profits?

Stops and Profits are best placed as OCO orders. OCO orders are "linked" to the primary order entry and "One Cancels Others", so if they Position with the brokerage is "filled" or "canceled" for any reason, the related OCO order also are cancelled and pulled off the brokerage order sheet. OCO orders are good thing and make things much easier.

Circling back to the price that you are seeing.

If you are looking at a website, your data is very stale. The market moves in microseconds. When the market moves, it is called a "tick". You've hear the term Ticker, etc...it is a unit of measure. 4 ticks separate a "Point". So the primary value you see on any Instrument is the point and the decimal value is the tick in .25, .50 or .75 values. Super computers are used to keep up the tickers. A 10 year old laptop is likely going to have trouble keeping up with a data feed and the "analysis" necessary to make decisions. These tools used to analyze the incoming data feed are called "Indicators".

In order to get started you will need a software package and a data feed subscription.

NinjaTrader is a great system built on the C++ ecosystem and they offer a free data feed with an account. \$20 is the lowest account balance to do so. But they will also charge you \$25 per month if you do not trade, so \$50 initial with \$25 per month and no trading is the bare minimum.

There are many other providers of Data feeds linked to your brokerage.

Other options are Rithmic and Tradovate. We use Rithmic for most of our advanced data and account management if we are choosing something other than NinjaTrader's feed and account management.

Is a "Funded" account the same as me putting my life savings in a brokerage account for this?

The topic often comes up related to "Funded" accounts. These are very popular and there are MANY options to choose from. One of the leaders is APEX Trader Funding. We personally have experience with APEX with 100's of people we know that use it and have made income from being a part of the APEX community. APEX has their own computer systems in Chicago linked to

Rithmic or Tradeovate. Their concept is that an individual or a corporation signs up as an account holder. Account holders will receive 1099 income as an independent contractor if any of your activities with APEX result in a profit payable to you. The account is Synthetic until passed and then it becomes “funded” or a Performance Account.

### **How does this APEX program work?**

Buckle up, this is going to be a longer answer than you would think. The high level concept is that the account holder, subscribes to a monthly membership for various options of Evaluation accounts. \$25k seems to be most peoples first choice due to finances.

A \$25k evaluation account will get you an “account” that shows up in your NinjaTrader (typically with a Rithmic connection). That \$25,000 is simulator money but actually is processed by APEX brokerage via Rithmic with a more “realistic” experience than a straight SIM that is running actually on your own computer.

This injects Internet delays, brokerage slippage, etc. Your evaluation is passed if you bring your “Realized” account balance (that means you close all trades) is above \$26,500 after commissions. The catch is that every dollar you go above \$25,000 your trailing threshold for failing (or “busting”) is increased.

You also have to successfully trade 7 separate days as a minimum to have passed even if your balance is \$26,501. We know scores of people that have made the financial side then lose it on the consecutive days of mandatory trading. This is how you will learn to build your trading strategy, personal rules, and self discipline.

### **The trailing threshold is the real test.**

As your UNREALIZED account balance goes up, so does the Trailing Threshold.

### **What does that actually mean?**

If you are in a trade that show profitability and you do not close the transaction, you are judged against the opportunity you had but did not act on “or Realize in the industry terminology”.

A classic example of people “busting” APEX evaluation or PA (Performance Accounts) is hopping into a trade on a CPI day and having the market movers spike in your favor. The ticker moves in microseconds. Your trade rockets to a massively profitable value and before your finger can hit close or you “market” order can fill, the price tumbles massively in the other direction and APEX via Rithmic finds a way to close that transaction externally because the trade’s unrealized account balance has now crossed below the trailing threshold of \$1500 below that peak.

**Wham!** Account failed.

We have personally watched scores of people have this happen real time in trader rooms we were participating in at the time.

**There are two outcomes of an evaluation account.**

Pass and you get a certificate of accomplishment and the opportunity to convert to a Performance Account within the next 48 hours. We'll double click into that in a few minutes. Stay tuned.

If you fail the account evaluation, you can either "reset" the evaluation for \$80 or sit patiently and await it to reset after the 30 day contract auto-renews.

If you reset it, you are still subject to the automatic renewal on the monthly interval.

If the account is NOT busted, it will renew for your agreed subscription rate without changes to any account balances or trailing thresholds. You would leave an account not "failed" after 30 days in to leverage the number of trading days on record for your evaluation if you can pass in a day or two of trading.

**A disadvantage would be present if you have increased your trailing threshold via realized or unrealized profits** and you now have a very limited amount of trade volatility tolerance left to swing inside the market auction. Example of that scenario: You got up to \$52,500 an account, the trailing threshold is now at \$50,000 for a failure balance and if you were to lose \$1000 or \$1200 of those gains on a bad trade, you are now very close to the threshold and are pinched. Sometimes it is better to "launch it" the day or two before the renewal to try "pass the account" instead of letting it renew with only a couple hundred dollars in the account above the Threshold.

We'll get into tactics to have a chance to succeed at that "urgent" pass or fail scenario. Often this is a failure scenario due to the trailing threshold, but there are ways to improve your chances.

### **Performance Accounts:**

Now that you understand the trailing threshold and also are aware of the number of minimum active trading days to also count to passing that evaluation, we can now move forward to the differences of the Performance Accounts.

I'll stick with the \$50k as the example, since I think that is the sweet spot for value, trailing threshold to allow ES trades, and eventually when in a Performance Account with a higher account balance, you can leverage those additional contracts in your risk and reward strategy.

APEX allows up to 20 Performance Accounts per user to be active at once. Managing 20 separate accounts and trades is a LOT, but APEX also has created a great tool called APEX Trade Copier to simplify that.

### **The reason it is ideal to have many PA accounts active at once**

To hit your financial goals, you can copy the trades and only have to hit smaller, more reasonable targets on a regular basis to make extra money.

There are very specific rules on how you can request payment from your performance accounts and these rules generally “loosen” up after 3 months of successfully trading those accounts and meeting the minimum # of active trading days between payouts (10 trading days).

By staggering accounts that are requested for payment, that becomes easier and keeps your balances higher and further away from the PA bust threshold.

#### **What is the PA bust Threshold?**

For a \$50k APEX PA account, you have to trade 10 days and bring your account balance above \$52,600 before a payment can be requested.

The PA account is different than the Evaluation accounts in that the Trailing Threshold of \$2,500 for a \$50k account increases up to \$50,100 and remains there for the life of your Performance Account.

You are entitled to the funds above \$50,100 (after achieving \$52,600) but if you deplete it and have no room (aka margin) left to trade, you have pretty much abandoned the account.

PA accounts cost more than evaluation accounts (provided you got them on sale via a SAVE80 or SAVE90 or similar promotion). It is also more emotional since it feels more like real money...more adrenaline, etc.

*Observation:* In reality, APEX is likely still funding that account with Synthetic money at least until you have achieved a Payout level.

#### **That takes us back to your personally funded account options, NinjaTrader, etc.**

That is your cash and you realistically have to build up margin in that account to leverage multiple contracts in the future.

It very realistic to build a plan to leverage both APEX and your own funded accounts. I treat PA accounts like personally funded accounts with the dollars above \$50,100. You’ve earned that money, but you haven’t realized any earning until you get a payout for your 1099 as an independent contractor with APEX.

#### **How do you use Rithmic to help you have an advantage while passing an evaluation?**

APEX uses Rithmic settings to “bust” your account if your unrealized account balance goes below the trailing threshold. This is managed on the Rithmic servers in Chicago. Chicago based orders will always perform better than any manual order from a personal computer throughout the world.

The Rithmic software also has useful user settings to help you manage your account.

Inside Rithmic's Trader Dashboard with your accounts listed, Right Click on the account name and choose the menu item "View Risk Parameters". If you have already selected that account, you can also shortcut "Ctrl+E" to get to that screen.

Eval:

Performance:

Click on the tab named “Risk Parameters set by the Trader”.

Next Click on the Green “Auto Liquidate” cell and set it to “Enabled”.

Since you ALWAYS bust an account by being in a trade at the close of the day, always set to auto liquidate prior to 4PM. Do this by clicking the cell "Auto Liquidate At (HH:mm:ss)". Enter 13:58:15 and Click the Apply Button at the bottom of the screen.

Risk Parameters									
Risk Parameters set by the FCM Administrator			Risk Parameters set by the IB Administrator		Risk Parameters set by the Trader				
Account	No Trading From (HH:mm:ss)	No Trading To (HH:mm:ss)	Auto Liquidate	Auto Liquidate Criteria	Auto Liquidate Threshold	Auto Liquidate Max Min Account Balance	Ignore Open P&L When Trailing	Auto Liquidate At (HH:mm:ss)	Liquidate Only On Auto Liquidate
▶ APEX...			Enabled					13:58:15	

Next, we'll adjust the Auto Liquidate Criteria to accomplish the Risk Parameter settings you wish to use by clicking into the cell "Auto Liquidate Criteria".

The screenshot shows the 'Risk Parameters' window with three tabs: 'Risk Parameters set by the FCM Administrator', 'Risk Parameters set by the IB Administrator', and 'Risk Parameters set by the Trader'. The 'Auto Liquidate' column is set to 'Enabled'. The 'Auto Liquidate Criteria' dropdown menu is open, showing a list of options: 'Minimum Account Balance', 'Percentage of Cash on Hand Lost', 'Percentage of Margin Reserved Lost', 'Loss Limit', 'Trailing Minimum Account Balance', 'Limited Trailing Minimum Account Balance', and 'Multiple Simultaneous Criteria'. The 'Auto Liquidate Threshold' and 'Auto Liquidate Max Min Account Balance' columns are empty. The 'Ignore Open P&L When Trailing' column is checked. The 'Auto Liquidate At (HH:mm:ss)' column is set to '13:58:15'. The 'Liquidate Only On Auto Liquidate' column is checked.

Choose "Multiple Simultaneous Criteria" and click anywhere else in that window. It will trigger a new "Set" button to appear.

The screenshot shows the 'Risk Parameters' window with the 'Auto Liquidate Criteria' dropdown menu set to 'Multiple Simultaneous Criteria'. A blue 'Set' button has appeared next to the dropdown menu. The 'Auto Liquidate Threshold' and 'Auto Liquidate Max Min Account Balance' columns are empty. The 'Ignore Open P&L When Trailing' column is checked. The 'Auto Liquidate At (HH:mm:ss)' column is set to '13:58:15'. The 'Liquidate Only On Auto Liquidate' column is checked.

Click that "Set" button and it will bring up this settings window:

The screenshot shows the 'Set Auto Liquidate Criteria (Trader)' window. It has a title bar with a close button. The window contains a table with three columns: 'Auto Liquidate Criteria', 'Auto Liquidate Threshold', and 'Auto Liquidate Max Min Account Balance'. The table has eight rows, each with a checkbox in the first column. The checkboxes are all checked. The 'Auto Liquidate Threshold' and 'Auto Liquidate Max Min Account Balance' columns are empty. At the bottom of the window are 'Cancel' and 'Save' buttons.

Auto Liquidate Criteria	Auto Liquidate Threshold	Auto Liquidate Max Min Account Balance
<input checked="" type="checkbox"/> Minimum Account Balance		
<input checked="" type="checkbox"/> Percentage of Cash on Hand Lost		
<input checked="" type="checkbox"/> Percentage of Margin Reserved Lost		
<input checked="" type="checkbox"/> Loss Limit		
<input checked="" type="checkbox"/> Profit Limit		
<input checked="" type="checkbox"/> Trailing Minimum Account Balance		
<input checked="" type="checkbox"/> Limited Trailing Minimum Account Balance		
<input checked="" type="checkbox"/> Always Liquidate		
<input checked="" type="checkbox"/> Equity to Margin %		

**Minimum Account Balance** is useful for PA or EVAL if you wish to be removed from any trade that violates that setting.

**Percentage of Cash on Hand Lost** and **Percentage Margin Reserved Lost** are more applicable to cash accounts.

**Loss Limit** is the maximum daily loss allowed for the account based on the Unrealized Account Balance. If you set it to 201 it would “external” order the transaction and subsequent attempted transactions to be closed immediately in Chicago if you are in a trade that lost anything 201 or greater.

Do not set this too tightly or you will be “guaranteed to lose” very easily.

Do use this setting if you are trying to catch a runner on CPI day or similar to protect your account from busting.

**Profit Limit** is the maximum daily profit allowed for the account based on the Unrealized Account Balance. **THIS ONE IS IMPORTANT AND THE ONE TO USE FOR EVALUATION ACCOUNTS.**

**Every day:**

Set the Profit you need to make your account plus the commissions you will spend. This will automatically get you out of any trade you are in at that amount.

Set Auto Liquidate Criteria (Trader) ×

	Auto Liquidate Criteria	Auto Liquidate Threshold	Auto Liquidate Max Min Account Balance
<input type="checkbox"/>	Minimum Account Balance		
<input type="checkbox"/>	Percentage of Cash on Hand Lost		
<input type="checkbox"/>	Percentage of Margin Reserved Lost		
<input type="checkbox"/>	Loss Limit		
<input checked="" type="checkbox"/>	Profit Limit	3050	
<input type="checkbox"/>	Trailing Minimum Account Balance		
<input type="checkbox"/>	Limited Trailing Minimum Account Balance		
<input type="checkbox"/>	Always Liquidate		
<input type="checkbox"/>	Equity to Margin %		

Cancel Save

For instance, for a new EVAL account, \$3050 is about the right setting.

As your account balance improves, you would set JUST ENOUGH to make your EVALUATION target including commissions. It is annoying to have it \$9 or so short of the target and have to re-enter another trade.



**Trailing Minimum Account Balance** is intended protect profit from being given back. You will potentially use this for PA accounts.

**Limited Trailing Minimum Account Balance** is likely more applicable to PA accounts protecting yourself from losing profits and nearing any balance point you are setting as your guideline. This is the equivalent to the setting of the “bust” settings set by APEX.

### So how do you use the Profit Limit to your advantage?

In a few short months of using varying “go fast” or “go strategic” there had been a dozen separate times that I was surprised that Rithmic showed my “Auto Liquidate Peak Balance” to be > \$53,000 (\$50k Eval) and it showed the time when it happened. Most of the times I was not aware that the market spiked to that point, but my Trailing Limit threshold was certainly aware.

What could cause that? Running strategies could. Importantly, lag in the screen display versus ACTUAL market tick pricing could. This scenario happened enough to make me try to keep it from happening again. This has been extremely successful to lock down an EVAL as a PASS by simply using daily set Profit Limits. These live in Chicago on servers very close to the tick action. If I am in a strategy or a manual trade and the trade unrealized value exceeds what I set for the needed amount left to hit my EVAL target, it automatically exits with an “external” Rithmic transaction EXACTLY like what happens when you violate the trailing threshold and get the “dreaded external”.

### Eval pass after eval pass started happening.

This turned into a daily methodology. Set the Profit targets. Plan your strategy, execute your plan.

This will naturally knock out EVAL Pass accounts as the trades are happening. This result then turned into a methodology of how to use APEX Trade Copier.

One account’s Profit Target Setup at 8AM:

Auto Liquidate Criteria	Auto Liquidate Threshold	Auto Liquidate Max Min Account Balance
<input type="checkbox"/> Minimum Account Balance		
<input type="checkbox"/> Percentage of Cash on Hand Lost		
<input type="checkbox"/> Percentage of Margin Reserved Lost		
<input type="checkbox"/> Loss Limit		
<input checked="" type="checkbox"/> Profit Limit	3400	
<input type="checkbox"/> Trailing Minimum Account Balance		
<input type="checkbox"/> Limited Trailing Minimum Account Balance		
<input type="checkbox"/> Always Liquidate		
<input type="checkbox"/> Equity to Margin %		

ALWAYS use a “leader account” that has the longest way to go to the PASS target or has none at all (aka a PA). I also use the fewest accounts on my leader for ES and then use a ratio multiple for any accounts I want to push harder.

For MES, I use a leader with a quantity that is easily divisible, so qty 4 is a good leader. For troubled accounts with low balance and trade margin, I can ratio trade copy at 1 leader to .25 follower contracts. If I am pushing in MES, then I can then do 1.5 or 2, etc. following that leader’s 4.

You’ll note that the \$3400 Profit Limit picture was related to the top account below. Once my P&L exceeded \$3400 after commissions, Rithmic externally terminated the transaction. It did the same for the second account. The 3<sup>rd</sup> through 7<sup>th</sup> accounts listed would have all exited externally a few minutes later if I had trusted the trade and let my trailing stops do their job instead of me exiting and taking my profit. But no regrets, it was a good trading day nonetheless.

Account	Account Name	Status	P&L	Account Balance	Auto Liquidate Threshold Value	Auto Liquidate Peak Balance	Cash On Hand	Closed Profit/L...	Total Commission	Fill Buy Qty	Fill Sell Qty
APEX-...	APEX-...	active	3457.98	53081.81	50692.630000	52792.160000	49623.83	162	127.02	81	81
APEX-...	APEX-...	active	3390.28	53043.78	50555.720000	51701.830000	49653.50	158	107.22	79	79
APEX-...	APEX-...	active	1790.48	51859.84	49361.830000	52254.920000	50069.36	118	72.02	59	59
APEX-...	APEX-...	active	1764.20	51593.91	49095.900000	51087.100000	49829.71	96	60.80	48	48
APEX-...	APEX-...	active	1801.23	51582.96	49084.950000	51276.320000	49781.73	168	97.52	84	84
APEX-...	APEX-...	active	1732.82	51523.53	49025.520000	51713.040000	49790.71	84	54.68	42	42
APEX-...	APEX-...	active	1711.44	51324.12	48826.110000	51397.760000	49612.68	72	48.56	36	36

**Let me restate that so you get this VERY clear:**

You DO NOT WANT your **leader** account to get “externally” closed leaving your follower accounts without a leader.

That results in a “FLATTEN ALL ACCOUNTS” moment...even if you are in a good trade unless you can quickly manually go into each account in a Chart Trader and bracket them with Profit Targets and Stop Loss values.

The follower accounts will see the cancellation of the Stop and Profit orders and do the same...but they will NOT see the closure of the originating Entry order leaving a “naked” trade live on each follower account.

**The THOR method to make an EVAL pass:**

Another way to let Rithmic assist you with passing the account after you have properly set your daily Profit Target to pass the account is to keep adding contracts one or more at a time while in a very good trade.

You would do this when you are within striking distance of passing the account and for example you need \$700 and are passing through \$200 profit on one contract and all indicators say you are in the right moment.

Hit the Buy/Sell 1+ contract and if the trade moves in your direction, it will then quickly create unrealized profit. If it passes the Profit Limit. EXTERNAL and PASSED! This has worked over and over again.

**CAUTION:** You need to be in a SOLID trade for this or it can just as easily reverse and ruin your almost passed EVAL. This is the kind of thing you would do a few days before your EVAL would otherwise renew, for example.

### **The Ladder method:**

ANOTHER way to use the Profit Limit is to use it like a ladder system or a “climbing bar”.

Example: Set it for \$200 profit. Enter a trade with 1-x number of contracts. Rithmic closes it quickly after hitting  $\geq \$200$ . See your profit in Rithmic, take that value and add another \$200 in your Risk settings. Do it again. And again.

### **Why does that work?**

Well to manually do that you have to enter the trade and quickly and precisely set your profit targets. Manually, it is impractical. It is also subject to the PC and network lag limitations previously discussed. Rithmic is not.

This concept is blown if you lose a trade, and the result is having a loss value as your daily profit/loss. You have to adjust accordingly.

With the ES rotation average for the market auction being between 5 and 6 points right now, Stops are reasonably being set to  $> 30$  to 40 ticks. A 40 tick loss on one contract of ES is a \$500 loss. So a \$50k EVAL account has 5 losers in it before it is blown...with 1 contract...and you are ALLOWED to do 10 contracts.

### **Loss Limits:**

If you are going to use multiple contracts consider using Rithmic Loss Limits on your Risk profile that match your daily goals.

AKA \$501 loss limit. Or \$1001 loss limit for a 2 contract strategy.

If you can keep the account healthy enough to back down to 1 ES Contract planning methodology or 4 contract MES Contract planning or 2 MES or 1 MES planning methodology; then do so to manage your account.

As your renewal on the EVAL approaches, weigh the time left prior to renewal versus the gap to goal...aka if you have no room between your account balance and your trailing limit, it may be better to “send it” ...versus how you should manage a CASH account.