WHAT IS PROPRIETARY TRADING?
THE COMPLETE PRIMER ON PROP FIRMS

If you're reading this, you've probably just done a search for "proprietary trading," "prop trading," "proprietary trading firms," or some variation thereof, most likely trying to find out exactly what a proprietary trading firm does. It's a reasonable question. You're probably already trading and are looking to take your skill set and performance to the next level. You want to find the best proprietary trading firm out there that fits your needs and trading style.

Done right, researching proprietary trading firms and prop trading groups can be a formidable undertaking. You need to understand the types of firms out there, what they specialize in, and what you're seeking to accomplish by trading at a proprietary trading firm. The issue is that it's difficult to understand where the proprietary industry is without knowing where it began, where it has been, and where it's going.

In the Beginning

In addition to providing trading access to their clients, Wall Street firms have always traded for their own accounts. That, in itself, is proprietary trading — trading for your own account. The difference is that these firms are trading through proprietary trading desks; they are not proprietary trading firms. Their primary focus is in acting as broker-dealers to the public, holding custody of their clients' accounts, and investment banking.

While a proprietary trading firm may also be a broker-dealer, providing its own order routing for its traders, its purported *raison d`etre* is for the firm and its traders to turn a profit by trading the firm's capital in the markets.

Proprietary trading, more colloquially referred to as prop trading, got its start in the 1980s, concurrent with the rise of hedge funds. Traders with professional experience who saw no further upward mobility or financial benefit in remaining with investment banks had two prime options in front of them. If they had the contacts to raise capital and wanted the responsibility of running accredited investors' money, they opened hedge funds. If they didn't want the responsibility of running other people's money and just wanted to trade, they opened proprietary trading firms, attracting other experienced and up-and-coming traders they knew, and staked those traders with capital to trade.

It is important to bear in mind that even though this was only 30-odd years ago, this was prior to the telecommunications advances of the 1990s through the present. Not only did the internet not exist outside of DARPA, the first cell phones were just coming to the market. Prop firms still had to be wired into the exchanges or the major investment banks (or wire houses) to get their trades made. This meant that prop firms were concentrated in the major financial cities (New York, Chicago, San Francisco) and they required the brick and mortar of an office as well as specialized equipment, such as a Quotron or Bloomberg Terminal.

This was also prior to decimalization of the exchanges. Stocks traded in 1/8th dollar increments instead of one cent increments. Liquidity was also less prevalent during that time than is common today. If a trader got into a position, that position needed to move ¼ point in the direction of the trade for the trader break even, buying at the ask and selling at the bid. This impacted profit potential in a trade and forced traders to be laser focused in their pre-trade analysis.

Additionally, commissions were much higher during this period as well. While some of the larger prop firms could get better commissions because of the volume they traded, the average commission during the mid-1980s hovered around 0.6% of the market value of the trade. To enter AND exit a trade, a

trader was sacrificing around 1.25% (round trip) right off the top. For a trade to be profitable, movement often had to be measured in dollars, not eighths. This meant that a trade often developed over a period of days or months (swing and position trading) rather than minutes or hours (day trading).

The difficulty in profitable trading coupled with the sunk and recurring costs required by a brick and mortar location naturally led to the founders and owners of prop firms being very discerning about who they hired to trade their capital. Prop trading was far from democratized, as it is today. Getting a job at a prop firm was either a matter of personal pedigree and connections or a storied track record of up-from-the-bottom hard work, diligence, competence and connections. Connections mattered; it was just as much of a club as the rest of Wall Street.

Enter the '90s

Commerce and trade is driven by the exchange of information followed by the acquisition or distribution of goods and services. This is as true for trading financial instruments as it is for discovering you're out of milk and need to go to the store to buy some.

From the establishment of the Amsterdam Stock Exchange in 1602 through the first US stock exchange, the Philadelphia Board of Brokers in 1790, information moved at the speed of foot, horse, or sail, and later (1812) railroad.

The first transcendental leap in communications came in 1837 with the invention of the telegraph. Fast forward 155 years and we finally have the introduction of commercial dial-up internet access in 1992, just in time to take advantage of the invention of the World Wide Web in 1990.

This hockey-stick point in the computing and telecommunications industries began to democratize trading. The dotcom boom was soon to follow. The masses saw this exponential leap in communications as an opportunity and excuse to fully immerse themselves in the financial markets.

In a moment of clarity that ran in the face of tradition and an institutional desire to protect their positions and profits, brokers got on board the online commerce train rather than be run over by it and began offering online brokerage accounts in late 1994.

Beginning in 1995, an expanding economy, the digital revolution, the advent of online trading and the concomitant drop in trading commissions from the introduction of online trading all combined to create the perfect storm for stock trading. The S&P 500 index opened January 3, 1995 at 458.65 and closed December 31, 1999 at 1,469.25, an increase of 220% in five years. The worst month during that period was August 1998 where the S&P 500 had a loss of 14% but then the market rebounded and broke through to new highs over the next three months. If you were on the long side of the markets, it was nearly impossible not to make money.

Human psychology being human psychology, everyone who was in the markets thought they were geniuses. The natural extension of that thought process being, "If I can make more money trading the markets than working at my job, why don't I?"

Stories abounded of friends of friends who quit their jobs to trade the markets. There was a retail demand for the ability to trade professionally that the financial industry was happy to fill.

During this period, many "boutique" (read as small) broker-dealers arose to cater to the new demand and branded themselves as proprietary trading firms. In addition to trading commissions that were competitive with online brokerage firms, these boutique broker-dealers enticed traders wanting to trade full-time with the prospect of being able to work among other professionals on a trading floor, which was essentially a bank of computers with a squawk box feed to the Chicago S&P trading pit. The advertised benefit of trading in a group environment was a supposed synergy among the traders and a master-apprentice environment where people who wanted to learn to trade could do so at the knee of the more experienced traders.

Broker-dealers live and die by commissions generated from their clients, so the focus of these boutique broker-dealers was to encourage their traders to trade low-priced stocks often and in volume. This practice was a driving force in the rise of the day trader. Traders would take positions in the morning and liquidate those positions immediately prior to market close, ending up in cash at the end of the day.

While traders were now trading in volume due to the seemingly never-ending rise of the market and due to the encouragement of the firms they were with, the question in the minds of every manager at every broker-dealer was how to get them to trade even more.

The problem was Regulation T.

Brokerage firms were (and still are) allowed to loan their customers money to trade stocks in a margin account, but they were limited in how much they could loan their customers by Federal Reserve Board Regulation T, referred to in the finance industry as Reg T. Since 1974, the Federal Reserve Board has set the maximum margin rate for Reg T margin to 50%. That meant that traders could only trade twice the cash value of their accounts.

The workaround was that Reg T only applies to customer accounts: it does not apply to the firm's proprietary accounts. Up to that point, traders were simply a broker-dealer's customers and could only be offered Reg T margin. If the broker-dealer hired a trader, even on a profit-only or commission-only basis, Reg T would not apply and brokers could offer their traders more even more leverage, leading to more trading, leading to more commissions for the broker-dealer. The only thing required of the trader was the ability to study for and pass a (then) National Association of Securities Dealers (NASD) Series 7 Exam and pass a background check.

Problem solved. The traders were still required to post their capital, but the firms could leverage them up 10, 20, even 40 times the value of their accounts. If the traders were profitable, then great. Even if they weren't profitable, the firm had oversight on the positions and could liquidate the positions and commissions kept rolling in.

Not surprisingly, creating the group synergy and master-apprentice opportunity marketed by these new prop firms was difficult. The broker-dealers' goal was to get their customers to trade more. The traders' goal was to be profitable, which in practice, more often than not, meant trading less, being more focused, and concentrating on risk management. The two goals were often competing and diametrically opposed.

There is no established course of study, no college degree, that leads to a designation as a trader. Most of the jobs on Wall Street are either sales (asset collection) or back-office (administrative and compliance). This is true to this day.

Any "experienced" trader that was employed by the firm had a motivation, clearly communicated or otherwise, to get traders to trade more to generate more in commission income. Any experienced and successful trader that was not employed by the firm who was on the trading floor had the goal of generating profits for his (the demographic was overwhelmingly male) own account and any time he devoted to showing a new trader the ins and outs of the markets would take time away from his own efforts and, therefore, his profitability.

While there are a few notable exceptions of firms that took the view that it was better to have their traders be profitable and long-term customers, in the main, most of these firms treated their traders as temporary commission-generating machines, allowing them to churn their accounts and repeatedly take losses with no advice, supervision, or mentorship.

The bursting of the tech bubble in March 2000 spelled the death knell for the vast majority of these boutique broker-dealers masquerading as prop firms. The market had gone up so far for so long that people believed that it would continue to do so. When the market turned, many of those successful traders that had learned their craft in the preceding five years had no experience in a bear market and destroyed their accounts. Day trading fell out of favor among retail traders, the public at large soured on the stock market, and commission revenue dried up. Smallpox couldn't have wiped out a population better than the tech wreck destroyed small broker-dealers in the early 2000s.

Beyond 2000 — Survival of the Fittest

The early 2000s saw some changes to the prop trading industry. In response to what was viewed as the irresponsible encouragement of day trading, in early 2001, the Securities and Exchange Commission (SEC) approved amendments to NASD Rule 2520, creating the "pattern day trader" rule which took effect in September 2001, six months after the bursting of the tech bubble. As a result, day traders had to have a minimum account equity (value of cash and marked-to-market positions) of at least $25,000. For those traders meeting this requirement, brokerage firms could offer buying power four times the value of the account but solely for intra-day trades.

The next change was that the SEC looked at the profit split structure among prop firms. The rationale was that if a firm is presenting itself as a proprietary trading firm, then a measurable amount of the profits generated from that activity should go to the firm. In the late 1990s, some firms were offering 99:1 profit splits, where the trader kept 99% of the profits generated. They were able to do this because, in actuality, the profitability of the traders wasn't a consideration — commission generation was the sole focus of this practice.

This practice was unethical at best and morally repugnant on the other end of the spectrum. During the 1990s and into the early 2000s, it was not uncommon for traders at some prop firms to have a 97% failure rate. Their management teams knew that of 100 traders they brought in, only three would make it long-term. The aim was to get as many people in as possible and get them to generate as much in commissions as possible before they drew their accounts down to zero.

Those prop firms that were still around at the time sat up and took notice to the new legislation — quickly. The industry recognized that it was best to change their model quickly and quietly and firms reduced profit splits with their traders to show that the purpose of their prop trading activities was, in fact, to make a profit rather than to solely generate commissions. Currently, the industry has established that allowing its traders to keep 70% to 90% of profits with the firm keeping 10% to 30% provides incentive and compensation for its traders and shows that the firm is vested in its traders being profitable.

With the shift away from a commission-generation model and a need to show that the firm was generating a profit from its proprietary trading activities, prop firms had to justify the lower commission split to their traders and demonstrate that their activities focused on profitability.

Many firms could not make the shift and the industry was (rightfully) whittled down even further. The answer to both the above issues was comprehensive training for traders. The synergies and master-apprentice opportunities that prop firms had used to market their services to traders now actually had to be produced, codified, and delivered. The firms that had paid lip service to training their traders suddenly found themselves scrambling to develop training programs, only to find that quality training programs take thousands of hours to build, test, and refine.

The same issue occurred with respect to coaching and mentoring programs. The same firms that did not invest in training their traders previously found that most of those "coaches" whose previous job was to get traders to trade more and in larger sizes were not, in point of fact, very good traders themselves. Caught flat-footed, firms either opened their coffers and actually hired traders with excellent records and teaching skills or, more commonly, faked it until they could develop rising traders into a cadre of coaches.

By the mid- to late-2000s, the prop trading industry was becoming noticeably stratified. Barebones, undercapitalized firms with a patina of training and support were at the left side of the spectrum, mediocre firms in the midst of transforming their business models to become more supportive of traders muddled through as best they could, and on the right side of the spectrum, best-of-breed firms that were well-capitalized and had invested the time, energy, and capital into comprehensive training programs and coaching/mentoring programs at their inception began to clearly distinguish themselves.

Pulling Ahead of the Pack

Concurrent with the Global Financial Crisis of 2008, barebones firms on the left side of the prop trading spectrum began to fail with regularity.

Since these firms had never invested in training or supporting their traders, they had to rely heavily on their risk management systems to protect their trading operations. Unsurprisingly, given their focus on commission generation instead of trader profitability and longevity, their risk management systems were often not up to the task of multiple, heavy trader drawdowns in a fast market. The traders these firms failed to train and support were actually the seeds of the destruction of these firms.

The mid-tier firms realized they were caught between the proverbial rock and hard spot. They knew that to survive they had to make massive intellectual property investments to get their traders profitable, but they were also facing necessary investment in their risk management systems. This was all occurring as the economy as a whole was imploding due to the housing crisis. For those firms who could get their traders on the right side of the market (short) and get sturdier risk controls in place, they weathered this period battered and bruised but alive. Those that couldn't, failed.

Among the survivors in this tier, many were so damaged that they didn't have the capital to continue to improve their operations and were very receptive to buyout offers when the dust settled. The choice was to be acquired or face what they viewed as a lingering death as their traders moved on to better capitalized firms.

The best-of-breed portion of the spectrum began to pull noticeably ahead of the pack during this period. They had recognized far in advance that not only was the ethical choice to properly train and support their traders, but it was a far better model for longevity.

For most of these best-of-breed firms, the 2008 financial crisis represented one of the most lucrative trading environments since the late 1990s. Their traders had the knowledge to trade multi-directionally, identify and short poor performers in weak sectors, hedge portfolios against the occasional bear rally by being long on those few issues that were holding up, and size their positions correctly so that the risk taken at both the position and portfolio level were not undue. These strategies decreased reactionary risk management activity at the firm level and freed up resources to concentrate on coaching and mentoring traders.

Because of their success during this period, these best-of-breed firms were in a position to either poach top-performing traders from the less successful firms or outright dispatch and acquire the wounded mid-tier firms.

If ever there was an object lesson in businesses being rewarded for doing right by their customers, it was this time in the prop industry. Those firms that entered the industry with an eye toward fostering the profitability and longevity of their traders were rewarded, not only with increased trading profits but also with growth. Those firms that clung to the commission generation model at all costs weren't even afforded a respectful burial.

To this day, one of the best indicators of the quality of a prop trading firm is its longevity.

Finding and Evaluating a Prop Firm

The institutional prop firms of the 1980s still exist, but the barriers to entry there are in full effect, with a pedigreed education, industry connections, and a long apprenticeship period requirements for entrance.

Prop Firm Business Models

Among the (relatively) few remaining retail prop firms, there exists two business models: broker-dealer or non-broker-dealer. The driving force in this business decision is whether the firm chooses to view commissions as a source of revenue.

If the firm chooses to accept trading commissions as a source of revenue, it is required to be a broker-dealer, subject to associated regulatory oversight, and its traders will need FINRA licensure. Depending on the firm, the licensing requirements are a Securities Industries Essentials (SIE) exam and Series 57 top off, or the Series 7 and Series 55 exams. The Series 56 was replaced by the Series 57 in 2016 and would also be acceptable.

Some traders are best suited to find a firm with the broker-dealer model. As broker-dealers, these firms can offer their traders lower commissions than non-broker-dealer prop firms. If a trader trades in

volume and is day-trading centric, the cost of obtaining FINRA licensure and the additional regulatory burden on the trader may be more cost effective in the long run.

The best-in-breed example of this type of firm is T3 Trading. T3 Trading offers excellent training and support for its traders, has recognized expert traders who are compensated by the firm to increase trader profitability, offers respectable-but-responsible leverage for its traders, and provides multiple choices between commission level and profit split.

The non-broker-dealer model does not incur the regulatory and licensure burden of a broker-dealer model. In this model, the firm foregoes the revenue stream from commissions. Contrary to some uninformed musings on chat boards and social media, this model is completely legal and acceptable to the SEC, provided the firm is not attempting to act as a broker-dealer.

Regulatory compliance is streamlined for this model and its traders are not required to obtain FINRA licensure.

While commissions are slightly higher for the non-broker-dealer model, since these prop firms are trading through institutional-grade platforms, the difference is minimal and is still far less expensive than trading at a retail brokerage firm.

The non-broker-dealer model is an excellent choice for the trader who wants to trade part-time at a professional level and for traders whose personalities are better suited to position and swing trading.

The best example of this type of model is *OURS*.

Know Your Goals and Trading Style

To determine if trading at a prop firm is the best path for you, you need to know what you want to get out of trading with a firm. Before you start looking at different prop firms, list out what you want to achieve, what training and support you want to see, whether you want to trade part-time, full-time, or start out part-time and transition to full-time once your trading capital can support it.

You also need to have an idea of within what time horizon you want to trade.

Done right, day trading is time intensive and often involves not only technical analysis but learning the ebb and flow of how a particular stock or group of stocks trades. This can limit your opportunities if those issues are dead money (moving nowhere) when you're looking to trade them. If you like fast action but also want the comfort of being in cash at the end of the day, you're probably suited for day trading.

Swing and position trading are generally grouped together because swing trading can roll right into position trading. Swing trading is anything from an overnight hold to holding for several weeks and position trading picks up at the several weeks mark and can go out to several months.

Swing and position trading are the most popular time horizons for active trading, especially for people seeking to trade part-time with a full-time day job. Gains are meaningful and movement in this timeframe relies more on technical trading than long-term fundamental analysis.

While the IRS sets long-term capital gains rates for investments held at least a year, from a trading standpoint, positions held for six months or more are investments, governed more by fundamental analysis and macro events than by technical price movements.

If your personality is most suited to in-depth fundamental analysis and you prefer to know more about the company than the people that work there, you're probably best suited to be an investor, in which case I would recommend not trying to trade at a prop firm.

What Instruments to Trade

In addition to the time horizon that your personality is best suited to trade, you must have an idea of what instruments you want to trade or learn to trade and find a firm that specializes in those instruments.

While day trading is best known for trading the stocks themselves, prop firms long ago expanded what they were willing to let their traders trade.

Options are a popular instrument for swing and position trading. Done correctly, the potential downside risk is defined and planned for while the upside can be a considerable multiple of the risk. Options trading is a two-step process. First you need to learn how to trade stocks on a technical basis, then you need to marry that to the characteristics of the options themselves. There is far more to options trading than what is covered in *The Characteristics and Risks of Standardized Options*.

Currency trading, foreign exchange, forex, or FX, are all the same thing known under similar names. Forex trading is pairs trading, where you are long one currency and short another currency at the same time through a single currency pair or cross. FX trading is best suited for people with a day trading or swing trading time horizon, who like technical analysis, but are also interested in the effects geo-economic events play on interwoven economies. In the US, as a result of one of the Dodd-Frank reforms, leverage in FX trading is limited to 50:1, whereas in other countries, traders may be permitted 100:1 or greater leverage. Trading FX is an odd animal where to be successful, a trader must have a high risk tolerance but be simultaneously brutal and immediate in risk management skills.

With respect to futures and commodities trading, due to the risk, there are very few prop firms that specialize solely in futures and commodities. Those that do specialize in these instruments have higher up-front risk deposits. What is becoming more common is that existing prop firms specializing in some other instrument are offering futures and commodities trading to existing traders with successful track records and well-honed risk management skills.

Trading Floor vs. Remote Prop Trading Firms

When you've answered the above questions, you must consider whether you would benefit from physically being on a trading floor provided by the firm or if you can accomplish your goals with remote support.

Once broadband internet access became widely available, we abandoned the trading floor model and went completely remote. This has allowed the firm to source talent without geographic constraint.

While many firms are switching to a remote model, some firms choose to continue with brick and mortar trading floors. The costs associated with these trading floors are substantial, so any monthly desk fees the firm charges its traders will likely be higher than with a remote firm, but some people find true value in the ability to trade physically next to other traders.

Training and Support

Training and support for traders was once largely viewed as an unnecessary cost center for a retail prop firm, which, as we discussed previously, led to a Hunger Games-type reaping within the industry. Today, at least among the best-of-breed firms, training and support is now viewed as a prerequisite to trader profitability and a vital tool to augment the firm's risk management program.

For newer traders looking for prop firms for beginners, the training program should be the primary consideration.

Each firm has its own culture, time-horizon focus, trading instruments permitted, and associated risk profile.

Even at Wall Street prop firms with institutional level assets (over $100m), once someone has gotten in the door, it's still a matter of a years-long apprenticeship program, with a new trader starting out with an internship, moving on to an Assistant Trader, then an Execution Trader, and finally a portfolio manager with his own profit and loss responsibility. This is a years-long endeavor to achieve. Even traders making lateral moves between institutional prop firms need to show audited track records to their prospective new employers.

While retail prop firms have democratized professional trading, they are taking a risk on a completely unknown quantity — the incoming trader with little to no professional experience.

The best way for a retail prop firm to mitigate this risk is for them to proactively train and support traders new to the firm — to teach them how, and why, the firm wants them to trade in a certain way with certain risk-management parameters.

Bear in mind that a comprehensive training program is a massive, but necessary, cost center to a firm. For example, our firm's options training program is over 250 hours of dedicated instruction and its FX training program is over 100 hours. Those programs exclude the ongoing, near-daily seminars that we offer our traders for each division.

Content does not create itself, either. For each hour of video presentation our firm produces, an additional four hours in preparation, editing, and logistics is required.

Likewise, for each hour of coaching that we provide a single trader, an additional hour of preparation and documentation is required.

All this is designed to prepare a trader for successful live trading with the firm's capital and to increase profitability once the trader is live.

Supervision and Risk Management

“If you’re the smartest person in the room, you’re in the wrong room.” – Henry Ford

Supervision and risk management are two of the most important benefits of trading with a prop firm. A lone-wolf retail trader is, by definition, the smartest person in the room.

Traders who are on their own tend to become inwardly focused. They develop affinities for positions. They become emotionally attached to positions. They invest so much time in research that they convince themselves they must be right, even when the market tells them otherwise.

It’s a common trait in people. As human beings, we have a need to be right about things. It feeds our egos. We concentrate on being right about a position rather than concentrating on being profitable in a complete portfolio.

This need to be right is the kiss of death for a trader’s portfolio.

At some point in time, every trader needs a dispassionate look at his portfolio. Someone needs to tell him, “This position is killing you. It’s affecting your decision making. Close the trade, book the loss, clear your mind, and move on. Ask yourself if this is the hill you want to die on.”

A good prop firm will supervise its traders and provide an additional level of risk management. This can take many forms, from recommending a reduced position size, recommending a shift in portfolio allocation, or forcibly liquidating positions when a trader is frozen with indecision.

The aim of a comprehensive supervision and risk management program should not solely be to protect the firm. It’s primary focus should be to protect the firm’s traders.

Risk Capital

Within retail prop firms, there are no longer any firms that do not require a Risk Capital deposit. They have all gone out of business and the last one with this model shut its doors in 2009.

Ask any manager at any prop firm and they will tell you that their traders trade more responsibly, and more profitably, when they have capital at risk as well, when they have skin in the game.

As you research prop firms, you will find that Risk Capital is first-loss capital. On the opposite side, any losses in excess of a Risk Capital deposit is non-recourse to a trader.

For example, a trader comes to a prop firm, deposits $10,000 in Risk Capital, and gets a $50,000 account. The trader puts on $40,000 in positions, which is not hard to do. One of those positions is ill-advised, such as shorting naked call options. Overnight, the company he effectively shorted announces it is being acquired at a 100% premium. The next morning the price of the underlying stock has doubled, leaving the trader with a $20,000 loss.

The trader can walk away from the trade. He won’t get any of his risk deposit back, but he can walk away. The firm will balance the $20,000 loss against the trader’s risk deposit, but the firm will eat a $10,000 loss.

All trading contains risk. Each prop firm knows this, accepts this, and profits from it, but even with focused training, ongoing support, comprehensive risk management program, and requirements for Risk Capital, in the end, it is the firm’s capital that is at risk and losses do occur.

Profit Splits and Payouts

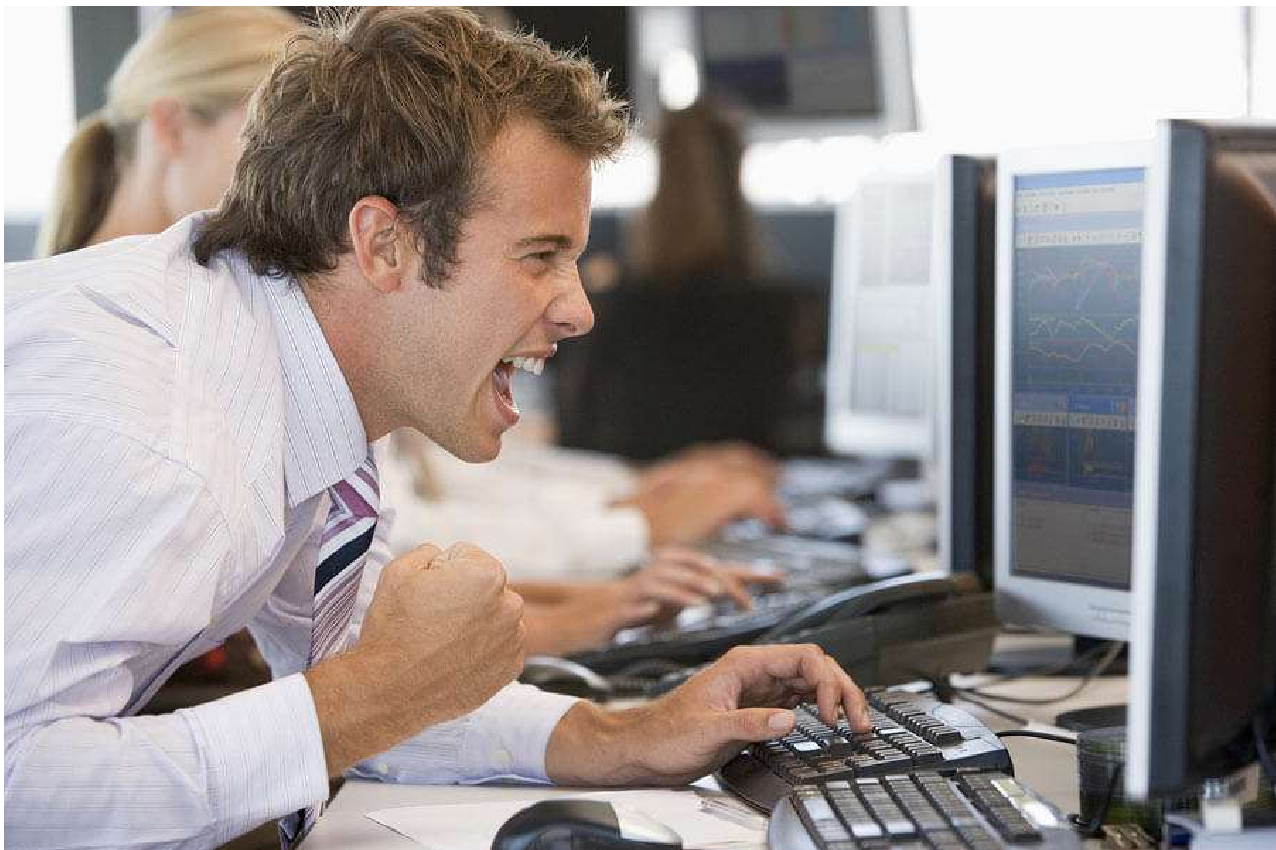
As we discussed previously, in exchange for the use of their capital, prop firms will take a split of the profits their traders generate, typically between 10% and 30%, depending on the firm, the size of the trader's account, and the trader's profitability.

The ability to trade additional capital is one of the driving reasons that people come to prop firms. With proper position-sizing and risk management, a trader has the ability to make more in gross dollars with less risk than the typical lone wolf retail trader.

While each trader is different in what they expect to receive in profit splits, one thing to look for is whether the firm keeps a high-water mark on its traders accounts. If the firm does keep a high-water mark on its traders accounts, it shows that the firm has an alignment of interests with its traders, only taking a profit split if the trader is truly profitable.

Trading losses will happen to every trader: it's the nature of the game. You want to make sure that when you do take a loss that you get to keep all the profits until you are back above your high-water mark. This allows you to get back to even much more quickly and concentrate on follow-up profitability with a clear head.

Without a high-water mark, when you do take a loss, there is a tendency for traders to trade more aggressively to get back to their breakeven point, which can exacerbate the situation and actually cause more losses.



Taking the Next Step

For a beginner or even an experienced trader, the ability to receive focused training, ongoing support, and access to meaningful amounts of trading capital are all attractive benefits of trading with a prop firm.

You need to pick one whose focus fits with your individual trading time horizon and trading style, and offers instruments you want to trade or learn to trade. Training needs to be comprehensive and more in-depth than what you can get in a 15-minute online video. The aim of that training should be to make you an expert in what you want to trade.

Support should start early and be ongoing, not only during training but also during live trading. Support should be included in the services the firm provides as a matter of course and not a bolt-on accessory.

Even if the firm is a broker-dealer and receives a revenue stream from trader commissions, the focus of the firm's operations should be, first and foremost, fostering an environment that focuses on trader profitability rather than trade volume.

Capital provided by the firm should be meaningful but responsible. It should be enough so that your profitable trades provide a genuine return on your time investment and the risk but not so massive that it promotes irresponsible position sizing.

Supervision and risk management should be constant and ongoing. While it should reward responsible risk-taking, traders *should* feel like they are being monitored if they take a position size that is outside the norm of their personal trading plan. Risk management programs should be designed not just to keep the trader at the firm to generate commissions, but to assist the trader to attain and maintain profitability. The focus should further be not on short-term events, but with an eye toward ensuring the longevity of a trader profitability.

In the end, finding a good, supportive prop firm can not only mean the difference between a trader's success or failure, it can also help a trader achieve profitability in all market conditions and avoid the black swan events that can destroy a trader's portfolio.