

We took the time to review all of our rules of trading since the first time we published them back in '93 and the first thing that caught our eye was how many rules we had that first year: 31!!! We had 31 Rules in our first edition, and upon retrospection we have this to say: We were younger then and we were stupider too, for there is no reason in the world why we had to have 31 Rules to guide our trading. Now we've revised them down to a far smaller number and have tried very hard to keep the number reasonable. Wisdom comes in the smallest of packages.

THE RULES OF TRADING: 2010

by: Dennis Gartman

1. NEVER, EVER, EVER ADD TO A LOSING POSITION: EVER!:

Adding to a losing position will lead to ruin. Count on it. Ask the Nobel Laureates of Long Term Capital Management.

2. TRADE LIKE A MERCENARY SOLDIER:

As traders/investors we are to fight on the winning side of the trade, not on the side of the trade we may believe to be economically correct. We are pragmatists first and foremost.

3. MENTAL CAPITAL TRUMPS REAL CAPITAL:

Capital comes in two types: mental and real, and holding losing positions diminishes measurable real capital and immeasurable mental capital.

4. WE ARE NOT IN THE BUSINESS OF BUYING LOW AND SELLING HIGH:

We are in the business of buying high and selling higher, or of selling low and buying lower. Strength begets strength; weakness only more weakness.

5. IN BULL MARKETS ONE MUST TRY ONLY TO BE LONG OR NEUTRAL:

The corollary, obviously, is that in bear markets one must try only to be short or neutral.

6. "MARKETS CAN REMAIN ILLOGICAL FAR LONGER THAN YOU OR I CAN REMAIN SOLVENT:"

So said Lord Keynes many years ago and he was... and is... right, for illogic does often reign, despite what the academics would have us believe.

7. BUY THAT WHICH SHOWS THE GREATEST STRENGTH; SELL THAT WHICH SHOWS THE GREATEST WEAKNESS:

Metaphorically, the wettest paper sacks break most easily and the strongest winds carry the farthest.

8. THINK LIKE A FUNDAMENTALIST; TRADE LIKE A TECHNICIAN:

Be bullish when the technicals and the fundamentals, as you understand them, run in tandem. Be bearish in the same fashion.

9. TRADING RUNS IN CYCLES; SOME GOOD, MOST BAD:

In the “Good Times” even one’s errors are profitable; in the inevitable “Bad Times” even the most well researched trade shall go awry. This is the nature of trading; accept it and move on.

10. KEEP YOUR SYSTEMS SIMPLE:

Complication breeds confusion; simplicity breeds elegance and profitability.

11. UNDERSTANDING MASS PSYCHOLOGY IS ALWAYS MORE IMPORTANT THAN UNDERSTANDING ECONOMICS:

Or more simply put, *“When they’re cryin’ you should be buyin’ and when they’re yellin’ you should be sellin’!”*

12. THERE’S NEVER JUST ONE COCKROACH:

The lesson of bad news is that more shall follow... usually hard upon and with even more detrimental effects upon prices.

13. BE PATIENT WITH WINNING TRADES; BE ENORMOUSLY IMPATIENT WITH LOSERS:

The older we get the more small losses we take... and very willingly so.

15. DO MORE OF THAT WHICH IS WORKING AND LESS OF THAT WHICH IS NOT:

This works well in life as well as trading. If there is a “secret” to trading... and to life... this is it!

16: FIX ALL ERRORS IMMEDIATELY:

Need we really say more? Errors only get worse, and if any one error gets better it is a prelude to a much worse error waiting in the pipeline.

17. SOMEONE’S ALWAYS GOT A BIGGER JUNK YARD DOG:

No matter how much “work” we do on a trade, someone knows more and is more prepared than are we... and has more capital!

18. ALL RULES ARE MEANT TO BE BROKEN:

But they are to be broken only rarely and true genius comes with knowing when, where and why