

Can the Turtle Trading System work with Day Trading?



Turtle Trading System vs. AI's Trading System

The turtle trading system fascinates me on many levels. First you have two guys (Richard Dennis and William Eckhardt) debating over whether they can mold untrained every day people into master traders. Apparently, Richard who was claiming you could was right in his belief that winning traders can be taught and are not born with some innate trading ability. I am not covering the details of the Turtle's journey from ash to classy in this article, but if you would like to read more on the turtle traders you can visit any of the following links:

<http://www.turtletrader.com/>

http://en.wikipedia.org/wiki/Richard_Dennis

[Turtle Trader Book](#)

The aim of this article is to compare the trading rules of my personal day trading system to those of the turtle trading system as published by Curtis Faith one of the original Turtles. To see the details of the turtle trading rules I am comparing my system to please visit: <http://bigpicture.typepad.com/comments/files/turtlerules.pdf>.

My going in assumption is the two systems will not be a spot on match because they were developed independently, but I want to see how much overlap if any exists.

#1 Define the Markets to Trade

The turtles were very prescriptive in terms of which markets they traded. Since the entire Turtle trading system centered on using large sums of monies, the Turtle trading system worked best in the futures markets. The Turtles did not concern themselves with trading equities, options or the other dozen trading vehicles present in the market during the 1980s.

For my own day trading system I do not trade options, forex, or the futures markets. I exclusively trade US equities and only those listed on the NYSE, AMEX, and NASDAQ. I do not trade any stocks listed on the OTCBB.

So, in terms of defining which markets are permissible to trade, I am going to say there is a 1-to-1 match between the Turtle trading system and my day trading methodology, because we both are selective about the arenas we operate within.

Does your day trading system allow you to trade across all types of securities and markets?

#2 Position Sizing

The Turtles have a system by which they factor in volatility to determine the number of contracts that can be purchased per trade. Their end game is to never lose more than 2% on any

trade. The Turtles use a look back period of 20 days for the average true range of a commodity to determine its volatility, at which point they will then size their position accordingly to minimize their risk.

In my day trading system I do account for volatility by comparing the average true range relative to the stock price.

To read about my approach please visit [How to Trade Volatility](#).

While I do factor volatility into my trading, I do not have a look back period defined for the average true range and I do not have a systematic way of position sizing. If I see the ATR is high relative to the closing price of the stock I will take on a smaller position. I do however have zones of the ATR which if exceeded I will not trade. If the ATR is within my green zone I will place 10% of my available margin in the trade.

It is probably a good idea for me to take my system to the next level by having a defined approach for position sizing, since it only takes being wrong once when you are over leveraged to have a serious problem. For me, instead of modifying my position size and taking all valid setups as trade opportunities, I have learned over the years which ATR ranges are not appropriate for me and have avoided these trades all together.

The other item I have in common with the Turtles related to position sizing is the concept of a maximum drawdown of 2% of my account value on a trade. Just like the Turtles, I will liquidate my position the second this is breached.

For position sizing, while there are a number of similarities, I have to say I don't have a match with the turtles on this one.

Have you factored in position sizing into your trading system?

#3 Entry Criteria

The turtle trading system opened new positions on a break of the 20-day or 55-day high/low. For the short-term the 20-day period was used and for the larger trend the 55-day period.

This breakout approach was used for both long and short trades.

Just like the Turtles, my day trading system only calls for an entry when price breaks above or below the high/low of the morning range after a strong move.

I trade on the 5-minute time frame, but I have not called out the exact range breakout range (i.e. 20 bars, 55 bars).

However, my day trading system accounts for the concept of buying or selling the breakout since I only trade volatile stocks in the morning that are moving on high volume. On average these stocks are clearing not only the last two days trading range, but likely the range for the last week which is far more than 20 or 55 bars.

There is a slight difference on how I approach entries. The Turtles will buy/sell the commodity on the break of the range.

This means if the commodity gaps up through a level, the Turtles are buying on the open. If the commodity breaks through the range during the middle of the day the Turtles are purchasing as well.

For my day trading system I have two rules which I follow no matter what:

1. I do not blindly buy the breakout at 9:30 if a stock sails above a trading range. I must see the stock pullback from the morning high, build more cause and then surge through that high. For me this is validation the stock will continue in the direction of the primary trend, at which point I will open a position.
2. Unlike the Turtle traders who can open a position at

anytime during the trading day, I only open new positions between 9:50 and 10:10 am. Since day trading is on a much shorter time frame than the system used by the Turtles, I don't have enough time to make my money back if things go against me. Also, I have to give stocks enough time to run before the dead zone starts at 11. If you haven't heard me rant already about lunch time trading please check out this article – [9 Reasons Why I Do Not Trade During Lunch](#).

Other than the concept of buying breakouts, our systems are not in alignment. The disparity between long-term trend following and day trading got the best of us on when it comes to entry criteria.

#4 Adding Units

The Turtles would add to winning positions as these positions went in their favor. Sizing up was permissible all the way to the maximum number of contracts a Turtle could carry based on their account value. In principle sizing up makes sense, since you should add to winning positions.

My day trading system does not call for increasing the size of winning positions as the trade progresses. In day trading the window of opportunity are much too short and stocks will turn on a dime after a false breakout. My day trading system calls for me to close my position after 1.62% profit; however, some of my positions never quite make it to my profit target.

Sizing up if the trade goes in my favor somewhat but not all the way would go against my [day trading money management](#) principles. If I start to add to a winning position let's say every quarter point it goes in my favor and the stock reverses after 1% of profit, I have now increased my risk profile to an unsustainable level.

Increasing the trade size is something best left for longer

term trading. For good reason, my day trading system and the Turtles have zero in common when it comes to adding units to a winning trade.

Have you tried increasing your trading sizes when day trading if things go your way? What types of results have you achieved?



#5 Stops

The Turtles had a maximum stop loss of 2% of their account value for any trade. If a Turtle was adding units to their trade size, the Turtle would move their stop up in order to maintain the same level of risk as when the Turtle first opened the position.

As stated earlier in the article I too only risk a maximum of 2% of my account value on any trade.

I'm not going to drain stops too much, it's pretty straight forward. The Turtles and I have a 100% match between our systems. If you do not use stops in your trading approach, you are asking for it. Show me a trader that has been in business for more than 5 years that doesn't use stops; good luck with that one, they don't exist.

#6 Exits

The exit is the most important component of a trading system.

Early in my trading career I would never take money out of the market. When I was 25 I made over \$100,000 dollars trading options in a little over 7 weeks. To this day I remember my wife sitting with me as we looked at my trading account. She turned to me and said "Sweetie this is awesome, when are you going to sell." To this I replied, "This is step one in my trading plan. My goal is to make a million dollars in 6 months."

Don't you wish you could go back in time and slap yourself?

Needless to say I no longer trade options and I consistently take money out of the market after every winning trade.

I digress; the Turtles would close winning positions when the security set a new 10-day high/low for short-term trading and a new 20-day high/low for longer term trading. This required the Turtles to give back significant profits of 20% to 100% in order to allow the security enough room to breathe.

Over the long haul the turtles are basically swinging for the fences in order to make up for all of the trades that resulted in minor to midsize losses. Remember with the Turtles their system was less about being right all the time and more about winning big when the commodity heavily went in their favor.

Let me be crystal clear, my day trading system does not allow me to let my trading profits run. I am day trading people, things move pretty fast. I have a set profit target of 1.62% and my end game is to hit this percentage as many times per month to turn a profit.

If the trade goes against me before I hit my profit target I look to get out of the trade with a profit sometime between 11 am and 12 pm. I literally say to myself, I have entered the dead zone (11 am – 2 pm), so if I am up on the position I

still consider the trade a win.

For exits, we can safely say the Turtles and I are in complete disagreement. I largely think we are not in alignment because while we both systems are centered around trading breakouts, day trading requires me to book profits quickly and on a consistent basis. Due to high frequency trading linear moves are very rare to come by intraday.

In Conclusion

Needless to say there are more than just a few differences between the Turtle trading system and my day trading system. I was only able to find clear overlaps in two places: defining the markets to trade and stops.

As a trader it's always good to see how your trading methodology measures up against other top traders in the industry. It is comforting to know that while our systems differ these disparities are largely based on the fact we are trading different time frames.

Over time I can only dream of making as much as the other successful Turtle traders.

I hope you found me going on and on comparing myself to the Turtles not too presumptuous. If you would like to discover how you can define your own trading system, check out our trading simulator where you can practice in a risk-free environment.

Good Luck Trading.

– Al

Photo Sources

Turtle – [tarotastic](#)

Stop Sign – [DonkeyHotey](#)