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Some Rules You Should Know as a Prop Trader

The General Trading Strategies & Rules That Prop Firms Prohibit

- High-Frequency Trading
- Ultra-Fast Scalping
- Latency Arbitrage Trading
- Any Tick Scalping Strategies
- Any Reverse Arbitrage Trading
- Any Hedge Arbitrage Trading
- Hedging Between Different Accounts

Maximum Lot Size Limit

A maximum lot size limit means that you have a limitation based on your trading balance or based on specific trading instruments.

Risk Per Position Rule

The risk per position rule shows the specified percentage that traders can risk for a given trading instrument.

Mandatory Stop-Loss Rule

The mandatory stop-loss rule means that traders need to set a stop-loss on every position or buy/sell limit before opening it.

Consistency Rule

The consistency rule, in general, means that you are expected to trade based on your trading style with similar risk and lot sizes.

Maximum Number of Positions Open at The Same Time

The maximum number of positions open at the same time tells how many positions we can have open in general or for each trading instrument.

Minimum Open Trade Time

Minimum open trade time tells how long our open positions are open before being able to close them to not breach the rule. This time can vary from a couple of seconds and upward.

Consistent Trading During the Minimum Trading Days Period

Consistent trading during the minimum trading days period means that if you have a ten minimum trading days requirement and reach your required profit target in 7 days, you are expected to stick with your original trading strategy. This means that despite hitting the profit target, you are not allowed to reduce risk (for example, open positions with 0.01 lot sizes in the remaining three days).

Risk Desk Team

Suppose a proprietary trading firm has a risk desk team. In that case, this means that when you successfully finish your evaluation challenge, they analyze your progress to determine if your trading style/strategy is compatible with the firm's beliefs of trading. If they decide that your trading is not fitting for their trading firm, you will receive a refund based on the evaluation challenges that you purchased.

No Gambling Mentality

No gambling mentality. This means that you are expected to trade without overexposing your account to complete the challenge as quickly as possible. Traders should remain disciplined and follow their trading strategy to reach their required profit targets.

Martingale

The Martingale trading strategy is doubling up on losing positions and reducing winning bets by half. It is a strategy that promotes a loss-preventing mentality that tries to improve the odds of breaking even. In cases of more losses occurring, they are severely higher than normal since more positions go in the opposite direction. Based on the explained principle, many prop firms don't allow the martingale strategy, or they somewhat limit it.

Grid Systems

Grid systems in forex are one of the automated methods of trading. This essentially removes the stress of manually opening and closing trades. It means that placing several buys and sell stop orders with previously calculated intervals above or below the current market price is not allowed.

Hedging

Hedging is a trading strategy that places two trades at the same time in the opposite direction to reduce the risk of any adverse price movements. However, it is not allowed because of overexposure that comes from higher spreads and market gaps.

EAs

EAs are automated robots that trade instead of the trader. Despite the fact most prop trading firms allow them. They often don't tell traders that they are only allowed if they are the author of the EA itself. You are not allowed to buy EAs that were made by other people since it could result in more people using them. This can expose higher amounts of the proprietary trading firm capital.

Trade Copiers

Trade copiers are EAs that allow you to copy trades from one master account to more copy accounts. Most proprietary trading firms allow them. That is only if you copy trades from your other master account and not from other signal providers. The reasoning is like the EAs one since it could result in more people using them and making higher amounts of the prop firm capital.