The truth about money management Some view hedge fund managers as "being in the big leagues," reflecting what many traders want to become when they grow up. Of course, not all great traders are fund managers.Consider Larry Williams and Sheldon Knight. Their feats of turning small accounts of less than $50,000 into more than $1 million in less than a year are comparable to Barry Bonds hitting 100 home runs and batting .400 in a single season. Williams did it twice, starting with $10,000 in 1987 and $50,000 in 1997. Knight did it during 1986-87,starting with $50,000. To be fair, I believe that these traders accomplished this feat merely to show that it could be done, not because that style of trading reflects how they always approach the markets.In an interview, however, Knight says that belief isn't necessary true. Knight says that his goal and probably Williams' was to make as much money as possible while keeping the risk of ruin, which he defines as a draw down point where no further trading can take place, at a reasonable level. He also says that he would still trade that way. This brings into focus the difference between fund managers who trade client money and successful private traders who trade only their own funds.The difference rests at the level of their purpose and goals. Individual traders need to honestly assess their risk tolerance and determine how much trading capital they can raise. They also need to consider the difficulty in rebuilding their account if their trading fails. Once these questions have been answered, an individual trader needs to develop a trading system and plan with limited capital and

personal risk tolerance in mind. They also need to understand their system and trust that it works so they can follow it and truly understand what can happen in real life draw downs, so they can handle that issue when it occurs. Most important, they need to understand their goal is to make as much money as
possible while trying to ensure that they will have capital to continue trading. It is not always easy for an individual trader to ensure capital availability because small traders are often
under capitalized.Sometimes, the initial $10,000 or $20,000 may be the only stake a small trader will ever have. If this is your case, you must live with the understanding that your future trading life will be based as much on luck as it is on skill, at least initially. Trading smaller contracts, such as single stock futures, is another alternative until your capital is built up to a sufficient level. This will give a trader several opportunities to succeed even if it takes 10 years. Small traders can also trade more markets because their liquidity requirements are less. For example, markets like palladium, lumber and feeder cattle are among the markets that are not liquid enough for large fund managers to trade but they are plenty liquid for a one-lot individual trader. **To Read more,Please download the book.**
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