

# Investment Trading System Scams Exposed and How to Avoid Them

Read this Special Investigative Report before you subscribe to or pay for an Investment Trading System.

Everybody, it seems, has an investment trading system these days. Systems that involves laying a spiral graph toy over a price chart. Systems touted by a man in a cowboy hat, selling "the world's most powerful money manual". Systems that claim to use artificial intelligence or neural nets. There are even companies that claim that they develop 25 trading systems every month and test every one against "The 10 Power Principles for Successful Trading Systems" (that they invented in just the last couple of months).

There's even a guy out there who claims that "Since 1994" he has "taught thousands of e-mini traders worldwide a simple, reliable e-mini trading methodology." It's hard to understand how he could have been teaching people about the e-mini since 1994, since the S&P500 e-mini contract, the first e-mini, has only been in existence since 1997. Further, he claims, "it's much less expensive than most other e-mini courses and systems available today!" FYI, his program costs \$1,800(!). Our research found very few investment trading systems that cost more than this one. When we contacted him about these two seemingly unsupportable claims, we never got a reply.

There's so much baloney in the trading system marketplace it makes you want to follow Mark Twain's advice about how to double your money: "fold it over once and put it back in your pocket." Caveat emptor.

We've been on the Internet a long, long time (in Internet years) and We've seen a lot of "get rich quick" investment trading systems. When looking to purchase a trading system, it can be difficult to find a trustworthy business.

Some scams can be spotted by common sense. For example, a guarantee of 2,500% yearly is clearly outrageous as it promises that with only \$5,000 you could make \$125,000 in one year... and then through compounding for five years, \$48,828,125,000! If this were true, wouldn't the creator trade his or her way to become a billionaire? Maybe you've already been scammed by one of these fraudsters. Anyway, we finally got sick of what was being offered.

But these bogus programs persist because who wouldn't love to make piles of money quickly by following a trading program, working from home, and only doing a few hours of work per week. I've spent the past two years trying to find

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trading systems that actually seem to work. Only over the course of the past few months have I found any trading systems worth buying.

We finally decided to take a hard look through the all of the investment trading systems I could find and see if there were any that were actually legitimate. Too many of them met one or more of the "scam criteria" listed below.

To sum up our research, almost all of the investment trading systems we found were completely worthless. Amazingly, while evaluating the claims of all these systems, we actually did find a few legitimate systems.

But new scams pop up all the time. How do you separate the few legitimate investment trading systems from the scamsters? We have provided some information about the few legitimate trading systems that we have come across at the end of this article, but first, please take a look at our "Top 11" most common ways to spot trading system scams listed below.

Scam #1: Too many rules - too hard to understand

It may surprise you, but the best trading systems have fewer than 10 rules. The more rules there are, the more likely the trading system was "curve-fitted" to past results. Such curve fitting rarely produces profits in real markets.

Look for trading systems that is easy to understand and execute. Investment markets sometimes move quickly, giving you little time to employ complicated formulas when making a trading decision.

Scam #2: Trading only through private markets or "specially designated brokers"

If you can only buy and/or sell through certain channels, you may find yourself unable to sell your investment at the price you want. Also, the private markets and brokers usually take a very large commission because you have no other means of liquidating your investment.

Trade electronic markets whenever possible because (1) commissions are lower and (2) your orders are filled very quickly. When trading electronic markets you receive your fills in less than one second and can immediately place your exit orders. By trading liquid markets you can avoid slippage, which will save you hundreds or even thousands of dollars.

Scam #3: Too much time spent hyping the reward and too little time spent on how much risk is involved

Let's look at an example: If you go to Las Vegas, to the roulette table, and bet

everything you have on "red", then you have a 49% chance of doubling your money and a 51% chance of losing everything. The same applies to trading: You can make a lot of money if you are risking a lot, but the "risk of ruin" is also very high. You want to find a balance between risk and reward that you are comfortable with.

One rule of thumb is that the "risk of ruin" should be less than 5%, and the chance of success should be 5-10 times higher, e.g. if your risk of ruin is 4%, then your chance of success should be 40% or higher.

Scam #4: Too large an initial investment required

There is a futures day-trading system out there that requires you to invest over \$25,000 just to get started!

A good trading system should allow you to start small and grow your capital. A good trading system allows you to start with one or two contracts, and then increase your position as your trading account grows. This is in contrast to many trading systems that require increasing position sizes when you are in a losing streak.

Many "trading systems" are little more than a variation of the so-called Martingale Strategy, which works like this: every time you lose, double your contracts, and one winner will win back all the money you previously lost. What if you have four or five losing trades in a row? After four losses, you would have to trade 16 contracts! Trading the S&P 500 E-Mini futures contract, you would need at least \$63,200 just to meet the margin requirement for such a trade. That's why Martingale Systems don't work.

Scam #5: Complicated, subjective trading decision-making

Emotions and human errors are the most common mistakes that traders make. By all means you have to avoid these mistakes. Especially during fast markets, it is crucial that you determine the entry and exit points fast and accurately; otherwise, you might miss a trade or find yourself in a losing position.

Therefore you should look for a system that takes the subjective, emotional aspect out of trading. Buy and sell decisions are mechanical, with no subjective interpretation necessary.

Scam #6: Too low a percentage of winning trades (I call this the "we lose money on every car we sell, but we make it up on volume" pitch - nonsense)

Your trading strategy should produce more than 50% winners. That's not to say that trading systems with smaller winning percentages can't be profitable, too,

but the psychological pressure is enormous. Losing on seven trades out of 10 and continuing to follow the system takes great discipline, and most traders can't stand the pressure. Often, they will start "improving" the system, or stop using it altogether.

Scam #7: Same bulls\*\*t, new wrapper

If you've been looking at trading systems for very long, you may start noticing that the new scams that keep appearing are really just the same old scams, over and over, with new window dressing. They may vary in form and content, but they all share one predominant trait: they just don't work in the market. Eventually the sellers fold up their tents and disappear into the night.....with your money.

Scam #8: The trading contest winner

The winner of these trading contests, even the legitimate ones, may be a brilliant trader, but could just as easily have manipulated the results in his or her favor by opening several accounts, then trading them against each other in order to create one enormously successful account. The way this works is like this: on day one, the contestant might have half of his accounts long with maximum leverage and half short with maximum leverage. If the market rises, he closes the short accounts the next day, and reverses position on half of the long accounts, i.e., taking them short. He or she keeps repeating this process until one account has been right every day of the contest. This isn't cheap, but the payoff at the end can be worth it, in spades: even if the contest prize is small potatoes, winning the contest practically ensures a book deal, seminar audiences, and thousands of aspiring traders willing to pay for meaningless gibberish disguised as market expertise.

Scam #9: Secrets of The Insiders

Sometimes this takes the form of the "Warren Buffett method" or the "Peter Lynch method" of investing (usually written by people who have never worked for or with Mr. Buffett). They just use his name and claim that they are writing about a style of investing that Buffett made famous. The same goes for other celebrity investors such as Peter Lynch and George Soros. The other, more common scam, refers to some unnamed group just referred to as The Insiders, like the proverbial "Them", as in "They say..." This is almost always a sign that nonsense is being peddled.

Scam #10: The "little known, never before revealed system the pros use"

One popular website sells a very costly manual on a technique they claim has "never before been revealed to the public." If you read their marketing hype, you'd think that they regularly rubbed shoulders with the biggest movers and shakers in the market. What they don't bother to mention is the name of one single real person who uses this "powerful, foolproof system for generating consistently high profits in the seven figures annually."

Let's face it: if there even was such a thing as a "never before revealed secret system the pros use", why is it being revealed now, to you, by this seller?

Well, our search for legitimate Investment Trading Systems has come to an end. We have to say that we were thoroughly disappointed with most of what we found, and strongly advise that you do not take chances buying any programs other than those listed below. Whatever you decide to do, we wish you the best of trading success.