GENERAL

the original turtle trading rules

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Unveiling the Original Turtle Trading Rules: A Deep Dive into a Legendary Trading System

In the annals of financial history, few trading methodologies have achieved the legendary status of the Turtle Trading system. Conceived by the iconic trader Richard Dennis and his skeptical partner William Eckhardt in the early 1980s, the original Turtle Trading rules were born out of a simple yet audacious experiment: could anyone be taught to become a profitable trader in a matter of months?

Today, traders around the world still study the original Turtle Trading rules as a blueprint for systematic, trend following strategies. This article offers a comprehensive, step by step guide to the system's core principles, entry and exit mechanics, risk management, and the practical nuances that turned a group of novices into a community of successful market participants.

1. The Genesis of Turtle Trading

1.1 The Experiment That Changed Trading

In 1983, Richard Dennis, a seasoned commodities trader, challenged his partner William Eckhardt to prove that trading talent could be taught rather than innate. Dennis recruited 23 individuals from diverse backgrounds—high school teachers, factory workers, and even a retired sailor—and trained them over a six month period using a strict set of rules.

Upon completing the training, the group, affectionately dubbed the "Turtles," entered live markets with capital provided by Dennis. Within a year, the Turtles collectively generated an average annual return of 75%, a staggering achievement that validated Dennis's hypothesis and cemented the system's reputation.

1.2 The Core Philosophy

At its heart, the original Turtle Trading rules embody a simple yet powerful philosophy:

- Follow the trend. Markets move in persistent, measurable trends; the system seeks to capture these movements.
- Use disciplined risk control. Position sizing is calibrated to a fixed percentage of capital, protecting the account from catastrophic losses.
- Keep it rule based. Human emotion is eliminated through clear, unambiguous entry, exit, and scaling rules.

These principles remain relevant today, even as traders adopt advanced technology and data analytics.

2. The Original Turtle Trading Rules Explained

2.1 Market Selection Criteria

The Turtles traded a diversified basket of futures contracts to spread risk across multiple asset classes. The original list included:

- Crude oil (CL)
- Gold (GC)

- Natural gas (NG)
- U.S. Treasury bonds (ZB)
- Eurodollar (GE)
- Euro (EC)
- U.S. stock index (ES)
- Japanese yen (JY)

While modern traders may adapt the list to their preferences, the underlying principle is diversification across correlated yet distinct markets.

2.2 Position Sizing: The 1% Rule

Position sizing is the backbone of Turtle risk management. The system uses a fixed fractional rule: each trade's risk is capped at 1% of the account equity.

1. Determine the account equity at the time of trade initiation.
2. Calculate 1% of that equity.
3. Determine the dollar value of a single contract at the entry price.
4. Divide the 1% risk amount by the contract's dollar value to find the number of contracts.

Example: If your account equity is $200,000, 1% is $2,000. If the entry price for a gold contract is $1,500, the dollar value per contract is $1,500. You would trade 1 contract ($1,500) and risk $2,000, which is 1.33% of equity—slightly above the 1% target. In such cases, you would reduce the position to 1 contract or adjust the stop to maintain the 1% risk threshold.

2.3 Entry Rules: The 20 Day Breakout

The Turtle system employs a breakout strategy based on the 20 day price range. The entry rule is:

Buy (long) when the price closes above the highest high of the previous 20 days.

Sell (short) when the price closes below the lowest low of the previous 20 days.

This rule captures the momentum of emerging trends while filtering out short term noise.

2.4 Exit Rules: The 10 Day Stop

To protect against trend reversals, the Turtles used a stop loss based on the Average True Range (ATR) over 10 days:

- For long positions, the stop is set at the lowest low of the previous 10 days.
- For short positions, the stop is set at the highest high of the previous 10 days.

When the price hits this stop level, the position is closed. This mechanism ensures that losses are capped and that the account can recover quickly from adverse moves.

2.5 Scaling In and Out: The 2 Step System

Once a trade is opened, the Turtle system allows for scaling in and scaling out to capture larger moves while controlling risk.

1. Scaling In (Adding to a Position) – If the price moves in favor of the trade by 1 ATR, the trader adds an additional 1 contract (or 0.5 contracts if the account is smaller). This step increases exposure to the trend while keeping the risk per trade at 1% of equity.
2. Scaling Out (Reducing Exposure) – After the trade reaches 2 ATRs in profit, the trader takes partial profit by closing half of the position. This reduces risk exposure while still allowing the trade to benefit from further upside.

These scaling rules help traders capture the majority of a trend's move without over exposing the account.

2.6 The 40 Day Trend Filter

To avoid entering trades in choppy or sideways markets, the original Turtle rules included a secondary filter based on the 40 day price range:

- A long trade is only initiated if the price closes above the 40 day high.
- A short trade is only initiated if the price closes below the 40 day low.

This filter reduces false breakouts and increases the probability that the breakout will develop into a sustained trend.

3. Implementing the Original Turtle Trading Rules Today

3.1 Choosing the Right Platform

Modern traders can implement the Turtle system on a variety of platforms—MetaTrader, TradingView, NinjaTrader, or custom Python scripts using APIs such as Interactive Brokers or Alpaca. Key requirements include:

- Real time price data for futures contracts.
- ATR calculation capability.
- Automated order execution with stop loss and take profit features.
- Position sizing tools that can dynamically calculate 1% of equity.

3.2 Data Requirements and Accuracy

Because the Turtle system relies on historical highs and lows, data integrity is paramount. Traders should use:

- High frequency intraday data for accurate 20 day and 40 day ranges.
- Consistent time zones to avoid misaligned daily close calculations.
- Cleaned data free of gaps and outliers that could distort ATR values.

3.3 Backtesting and Forward Testing

Before deploying real capital, conduct thorough backtesting across multiple market cycles. Key metrics to evaluate include:

- Annualized return.
- Maximum drawdown.
- Sharpe ratio.
- Win rate and average trade duration.

After backtesting, perform forward testing on a demo account to ensure the strategy behaves as expected under live conditions.

3.4 Adapting to Modern Markets

While the core rules remain unchanged, traders may adapt the system for modern markets:

- Use a 14 day ATR instead of 10 day ATR. This smooths volatility measurement.
- Replace the 20 day breakout with a 10 day breakout for faster entries.
- Incorporate a volatility filter to avoid trading during low liquidity periods.
- Use a trailing stop based on a multiple of ATR to lock in profits as the trend evolves.

These adjustments should be tested rigorously to avoid compromising the system's integrity.

4. Risk Management: The Turtle Edge

4.1 Fixed Fractional Position Sizing

By risking only 1% of equity per trade, the Turtle system ensures that no single trade can wipe out the account. Even in a series of consecutive losses, the account can recover by increasing position sizes as equity grows.

4.2 Stop Loss Discipline

The 10 day ATR stop provides a clear exit point that is anchored to market volatility. This prevents traders from chasing losses or holding onto losing positions for too long.

4.3 Diversification Across Markets

Trading multiple futures contracts reduces correlation risk. If one market turns against the trader, gains in another can offset the loss.

4.4 Managing Drawdowns

Even with strict risk controls, drawdowns are inevitable. The Turtle system's scaling rules help mitigate drawdowns by allowing partial profit taking and reducing exposure before a reversal.

5. Psychological Edge: Removing Emotion from Trading

One of the most celebrated aspects of the original Turtle Trading rules is their ability to remove human emotion from the trading process. By adhering to a set of objective rules, traders avoid:

- Fear based premature exits.
- Greed driven over trading.
- Confirmation bias that skews entry decisions.

To fully benefit from this psychological edge, traders should:

1. Maintain a trading journal documenting every decision.
2. Review performance against the system's metrics.
3. Re train periodically to reinforce discipline.

6. Common Pitfalls and How to Avoid Them

6.1 Over Scaling

Adding too many contracts beyond the 1% risk threshold can expose the account to excessive risk. Stick to the prescribed scaling rules and never exceed the risk limit.

6.2 Ignoring Market Conditions

Applying the breakout rule in a range bound market can lead to false signals. Use the 40 day filter and volatility checks to confirm that a trend is emerging.

6.3 Slippage and Execution Issues

Futures markets can experience slippage, especially during high volatility. Use limit orders for entries and stops to mitigate slippage risks.

6.4 Over Optimizing the System

Backtesting with too many parameters can produce over fitted results. Keep the rules simple and avoid tweaking parameters beyond the original design.

7. The Legacy of Turtle Trading

Decades after the experiment, the original Turtle Trading rules remain a cornerstone of systematic trading education. They have inspired countless traders to adopt rule based approaches, and their principles continue to influence modern trend following systems.

Beyond the mechanics, the Turtles' story is a testament to the power of disciplined learning, rigorous risk management, and the belief that trading skill can be taught.

8. Final Thoughts

The original Turtle Trading rules offer a proven framework that balances trend following ambition with disciplined risk control. By following the 20 day breakout entry, the 10 day ATR stop, and the 1% position sizing rule, traders can build a systematic approach

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