The Original Turtle Trading Rules

The Original Turtle Trading Rules: A Complete Guide to the Legendary System

In the early 1980s, a fascinating experiment unfolded in the world of finance. Richard Dennis, a legendary trader who turned a few hundred dollars into hundreds of millions, made a bold bet with his business partner William Eckhardt. Dennis believed that trading could be taught to anyone, while Eckhardt argued that it required innate talent. To settle the debate, they placed a newspaper ad, recruited a group of novices, and trained them in a systematic approach. The result was one of the most famous trading experiments in history: the Turtles. The system they used, known today as The Original Turtle Trading Rules, produced over $100 million in profits in just four years. This article explores every aspect of that remarkable system and shows you how its principles remain relevant for modern traders.

The Origin Story of the Turtle Trading Experiment

Richard Dennis made his fortune by following strict trading rules based on trend following. He believed that if he could teach his system to others, they too could achieve exceptional results. In 1983, he and Eckhardt recruited 23 people from over 1,000 applicants. The selection process deliberately favored individuals with no prior trading experience. Dennis wanted to prove that anyone could learn to trade profitably if they followed a clear set of rules. The name "Turtles" came from a remark Dennis made during a trip to Singapore, where he saw turtle farms and noted that they grew massive turtles under controlled conditions. He declared, "We are going to grow traders just like they grow turtles in Singapore." The Original Turtle Trading Rules became the curriculum for this unprecedented experiment.

The training program lasted only two weeks. During that time, the new Turtles learned the complete system: how to enter trades, how to exit trades, and most importantly, how to manage risk. The rules were absolute. There was no room for discretion or gut feelings. This mechanical approach was the bedrock of the entire experiment. The Turtles were instructed to follow the rules without deviation, regardless of their emotions or market conditions. This discipline proved to be the most challenging aspect for many participants, yet it was also the key to their success.

The Core Philosophy Behind the Original Turtle Trading Rules

The foundation of The Original Turtle Trading Rules is trend following. Dennis and Eckhardt observed that markets do not move randomly. Instead, they exhibit periods of trend, where prices move persistently in one direction. The goal of the Turtle system was to capture these trends and ride them for as long as possible. The system assumed that trends were unpredictable in their timing and duration, so the Turtles had to be constantly prepared to enter when a trend began and stay in until the trend ended.

Another key philosophical element was the acceptance of losses. The Turtles knew that most of their trades would be losers. In fact, they expected to lose on about 60 to 70 percent of their trades. The winning trades, however, were expected to be large enough to more than compensate for the losses. This asymmetry is a hallmark of successful trend following. The Original Turtle Trading Rules embraced this reality and built loss management directly into the system.

Risk management was not an afterthought; it was the central pillar of the entire approach. The Turtles were taught to think in terms of risk units, not in terms of dollars. Each trade was sized so that the maximum loss on any single trade was a small, predetermined percentage of the trading account. This allowed them to survive long strings of losses while waiting for the big trends to appear.

The Entry Rules: How the Turtles Got Into Trades

The Original Turtle Trading Rules specified two primary entry systems. The first system, often called System One, used a 20-day breakout. A breakout occurred when the price of a commodity or currency exceeded the highest high of the previous 20 trading days. This was the signal to enter a long position. For a short position, the signal was when the price fell below the lowest low of the previous 20 days. System One was designed to capture shorter-term trends and was more sensitive to price movements.

The second system, System Two, used a 55-day breakout. This was a slower, more reliable signal designed to capture the strongest, most enduring trends. When the price broke out above the 55-day high, the Turtles would go long. A break below the 55-day low triggered a short position. System Two produced fewer trades than System One, but the trades it did generate tended to be larger and more profitable. Together, these two systems provided a comprehensive approach to capturing trends of varying durations.

The Turtles were instructed to take every breakout signal without exception. Skipping a trade was forbidden, even if they had just suffered a loss. They were also forbidden from adding to a winning position during the same breakout signal, but they could add positions on subsequent signals in the same market. This technique, known as pyramiding, allowed them to build larger positions in strong trends while keeping risk under control.

Adding Units: The Pyramiding Strategy

The Original Turtle Trading Rules included a specific method for adding to positions. After the initial entry, the Turtles would add another unit every half unit of average true range. The average true range was a measure of market volatility. By adding positions in increments based on volatility, the Turtles ensured that their position sizes remained consistent with current market conditions. This prevented them from overexposing themselves during volatile periods and allowed them to build larger positions during calm, trending markets.

Each unit added to the position was treated as a separate trade for risk management purposes. This meant that the total risk on the position increased with each addition, but each unit had its own stop-loss level. The pyramiding strategy could continue until the total position reached a maximum of four or five units, depending on the specific rules of the turtle group. This approach allowed the Turtles to maximize their profits during major trends without taking on excessive risk.

The Exit Rules: Knowing When to Leave

Perhaps the most challenging part of The Original Turtle Trading Rules was the exit strategy. The Turtles used different exit rules for System One and System Two. For System One, the exit was a 10-day breakout in the opposite direction. If they were long, they would exit when the price fell below the lowest low of the previous 10 days. For System Two, the exit was a 20-day breakout in the opposite direction. These exit rules were designed to let profits run while cutting losses short.

The exits were deliberately slower than the entries. This asymmetry was intentional. The Turtles wanted to give their trades plenty of room to develop. A trend could pause, pull back, and then continue in the same direction. If the exit were too tight, they would be shaken out of the trade prematurely. By using a wider exit, they allowed the trend to breathe. This patience was essential for capturing the massive moves that generated the bulk of their profits.

Stop Losses: The Safety Net

In addition to the breakout exits, each trade had a hard stop loss. The stop loss was set at a level that, if hit, would result in a loss of one unit of risk. The unit of risk was defined as 1 percent of the trading account. This meant that no single trade could lose more than 1 percent of the total capital. By keeping losses small, the Turtles could endure a long series of losing trades without significant damage to their accounts.

The stop loss was not discretionary. It was calculated mathematically based on the average true range at the time of entry. Once the stop was set, it could only be moved in the direction of the trade. It could never be widened to give the trade more room. This discipline prevented the Turtles from letting a small loss turn into a large one, which is a common mistake among inexperienced traders.

Position Sizing: The Hidden Key to Turtle Trading Success

Many discussions of The Original Turtle Trading Rules focus on the entry and exit signals, but the most important element was position sizing. The Turtles did not risk a fixed dollar amount on each trade. Instead, they risked a fixed percentage of their account. This is known as percent risk position sizing. The formula was straightforward. They would calculate the dollar amount of their stop loss and then divide that into 1 percent of their account value. The result was the number of contracts or shares they could trade.

This approach meant that the Turtles automatically traded smaller positions when their account was down and larger positions when their account was up. This is a form of anti-martingale betting, where you increase your bet size as your capital grows and decrease it as your capital declines. This is mathematically superior to risking a fixed dollar amount because it reduces the chances of ruin and allows for compounding of profits.

The Original Turtle Trading Rules specified that the Turtles should risk no more than 1 percent of their account on any single trade. This conservative approach ensured that even a string of 20 consecutive losses would only reduce the account by about 18 percent. This survivability was crucial because trend following systems can experience long periods of drawdown before the big trends appear.

The Psychological Challenges of Following the Turtle Rules

Knowing The Original Turtle Trading Rules is one thing. Following them consistently is another. The Turtles faced immense psychological pressure. After a series of small losses, it was tempting to skip the next trade or to tighten the stop loss to avoid further pain. When a trade was in profit, it was tempting to take the money and run instead of holding for the larger trend. These emotional responses were the greatest enemy of the Turtle system.

The rules were designed to be mechanical precisely because emotions are unreliable. The Turtles were taught to trust the system and to understand that individual trades did not matter. What mattered was the overall distribution of results over many trades. This required a shift in mindset from evaluating each trade in isolation to evaluating the system as a whole. Traders who could not make this mental shift struggled to follow the rules and often underperformed.

The social dynamics of the group also played a role. The Turtles were encouraged to compare their performance and to hold each other accountable. This peer pressure helped them stay disciplined during difficult periods. Knowing that other Turtles were following the same rules and experiencing the same drawdowns made it easier to stay the course.

The Legacy of the Original Turtle Trading Rules

The experiment proved that trading could be taught. Many of the original Turtles went on to manage their own funds and achieved remarkable success. However, not all of them succeeded. Some were unable to overcome the psychological challenges of following a mechanical system. The difference between the successful and unsuccessful Turtles was not in their understanding of the rules but in their discipline in executing them.

The Original Turtle Trading Rules have been published in various forms over the years. In 2007, one of the original Turtles, Curtis Faith, wrote a book titled "Way of the Turtle" that detailed the complete system. The rules have since become a foundation for modern trend following strategies. Hedge funds and institutional traders still use variations of the Turtle system today, often with modifications to account for changes in market structure, liquidity, and technology.

It is important to note that the markets have changed since the 1980s. The rise of algorithmic trading, the proliferation of derivatives, and the increased correlation between asset classes have made some aspects of the original system less effective. However, the core principles remain sound. Trend following still works, and the risk management techniques developed by the Turtles are as relevant today as they were four decades ago.

Lessons for Modern Traders from the Turtle Trading Rules

The most important lesson from The Original Turtle Trading Rules is that consistency matters more than prediction. The Turtles did not try to predict where markets were going. They simply reacted to what the market did. This reactive approach removed the burden of forecasting and allowed them to focus on execution.

Another enduring lesson is the importance of risk management. The Turtles understood that you cannot control the market, but you can control how much you risk. By keeping each trade small and by sizing positions according to volatility, they ensured that no single event could wipe them out. Modern traders can apply this same principle by using a percent risk model and by adjusting position sizes based on market conditions.

The Turtle system also teaches the value of patience. The big profits came from a small number of trades. The Turtles had to be willing to wait for those trades to develop and then hold them for as long as the trend lasted. This patience is rare in an era of instant gratification, but it is still the key to capturing outsized returns in any