

CHAPTER 1

The Shift in Prop Trading

From Big Banks to Everyday Traders

Proprietary trading, or prop trading for short, has been around for decades. It started as a way for big banks to use their own capital to profit from market moves. Fast-forward to the 1990s, and advancing technology made markets more accessible, sparking the rise of algorithmic and high-frequency trading. This shift led to the birth of electronic platforms like E-Trade, which provided individual traders with online market access. They quickly gained popularity, with millions opening accounts to trade online.

During this time, modern contracts for differences were introduced to retail traders, followed by the emergence of retail forex trading firms around 1999. The dot-com boom was a real game changer, revealing the endless opportunities in the financial markets to traders worldwide. The global financial crisis slowed things down a bit, but the cryptocurrency bubble and WallStreetBets brought the excitement back in the early 2020s. It was during this time that the modern version of prop trading began to gain significant traction. Between 2020 and 2024, over 120 new prop trading firms were established, attracting more than a million new traders and generating a staggering \$70 trillion in trading volume.

There are many differences between traditional and new prop trading firms. Traditional prop trading firms typically use their own capital. They employ traders who are often salaried employees or partners who receive

performance-based compensation. This small group of hand-selected traders usually undergo extensive training before they are allowed to trade with the firm's real capital. Once allocated funds, their performance is closely monitored to ensure they stick to strict risk limits.

New funded prop trading firms are shaking things up. Instead of employing traders outright, they offer aspiring traders the chance to prove their skills through evaluation challenges using simulated accounts. Traders pay a fee to enter these challenges, and those who succeed are given access to a larger amount of capital to trade, with profits shared between the trader and the firm. This setup is appealing because it allows traders to control significant amounts of capital – often \$10,000 or more – by investing just a few hundred dollars on an evaluation. A \$600 fee, for example, might provide access to \$100,000 in trading capital, with the possibility to scale up from there.

To access the funds and reach the stage of a funded trader, individuals must pass an evaluation, which involves meeting specific profit targets without exceeding certain loss limits. Some programs require passing two evaluations before funding, but once traders are funded, they can trade larger positions and share profits based on those amounts. The maximum financial risk for a trader is limited to the evaluation fees, which is a low-risk way to access big capital.

This model opens the door to traders from all walks of life, particularly those just out of college or early in their careers who haven't saved large amounts of capital. Saving \$10,000 or more can take years, but with just a few hundred dollars these prop firms offer a chance to trade significant amounts if you pass their evaluation. The evaluation is essentially a test to identify skilled traders. Prop firms want to see if you can consistently hit profit targets, like making 6% without losing more than 3%, over a set number of trading days. Each firm has its own rules, but they all aim to find traders who can profit consistently without taking big risks.

Another appealing aspect is that these firms operate primarily online, offering flexibility and remote work opportunities for traders worldwide. This new approach not only opens doors for many aspiring traders but also ensures that only the most capable traders get funded.

Although new funded prop trading firms offer exciting opportunities, there are some downsides to be aware of. One significant drawback is that most traders, whether they are on evaluation or funded accounts, trade with virtual funds. Additionally, regulators are just beginning to look at this space, which could lead to changes in the future. Another concern is that a significant portion of these firms' revenue comes from evaluation fees. This raises concerns about the firms' primary incentives – whether they genuinely

aim to find and fund skilled traders or to profit from the steady influx of evaluation fees. As this industry segment is still fairly new, these firms are adapting and evolving to become fairer and align their interests more closely with those of the traders. With so many different prop firms, each with its own unique rules, it's essential for traders to do their homework and fully understand the terms and conditions of these funded prop programs before diving in. This way, they'll be fully aware of both the potential risks and rewards.

The world of prop trading is diverse and exciting, encompassing traders who trade for themselves, those who work for traditional prop firms, and those involved in funded trader programs. In this book, we've had the pleasure of interviewing 14 standout proprietary traders. Among them are three trading champions, each with over a decade of experience, some of the most popular and widely followed funded traders, full-time traders turned professional money managers, and a select group of seasoned trading veterans.

These traders have shared their specific strategies and techniques, providing you with valuable insights. Whether you're just starting or looking to refine your skills, their stories and advice will inspire and guide you on your trading journey. Get ready to dive into their world and discover the secrets to their success.

