TRADING PLAN TEMPLATE

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Introduction

Towards the end of 2004, a thread entitled 'A Trading Plan – You MUST Have One!' on the 'Trading for a Living' forum was started on www.trade2win.com (T2W). The purpose of the thread was to produce a template by which all traders - regardless of experience, instruments traded, timeframes and brokers etc. - could create a professional trading plan. This document is the result of that thread. It comprises two main sections with a third section that in time will, hopefully, contain examples of real plans created using the template.

TRADING PLAN OVERVIEW

The Trading Plan Overview addresses fundamental questions regarding the subject, starting with a simple definition. It then moves on to discuss why traders need a plan at all and, once they have created one, what it will do for them. Those traders who are already convinced of the merits of having a plan, please feel free to skip this section!

TRADING PLAN TEMPLATE

This section is the nuts and bolts of the whole document. It comprises ten key units, with a series of questions in each one: about 50 in total. This is rounded off with a final unit: 'Golden Trading Rules'. The hope is that any trader can use the template to create their very own bespoke trading plan. Make no mistake, it will take time and effort to complete. But, having done so, you will at the very least, gain a greater insight into the kind of trader you are now and enable you to focus on the kind of trader you want to become. Explanatory notes and an outline for a possible answer accompany all the questions. For ease of navigation, there is a reference number at the start of each paragraph. If you get stuck at any point, help is at hand from fellow T2W members. Just post your query with the relevant reference number on the thread: http://www.trade2win.com/boards/showthread.php?t=12585

Naturally, you can add elements to your own plan that you think are missing on the template and, conversely, delete elements from the template that you feel are not applicable to your plan. In order that other traders may benefit from your amendments, please post your ideas on the thread above.

TRADING PLAN EXAMPLES

Currently, this section contains no trading plan examples. In an ideal world, it would house at least three complete trading plans: one for index futures traders, one for forex traders and one for stocks traders. The icing on the cake would be if they also covered the three main timeframes: day trader, swing trader and position trader.

TRADING PLAN OVERVIEW

1. What is a Trading Plan?

1.1 A trading plan is a complete set of rules that covers every aspect of your trading life. Many experts refer to the need to have an 'edge' which will tip the balance of probabilities of success in your favour. In itself, a plan is not an edge but, over time, the trader with a plan will fair a lot better than the trader without one. Many amateur traders do not have any sort of plan to trade by, and enter the markets with scant regard to their risk and profit objectives. Suffice to say, comprehensive risk and money management strategies lie at the heart of all good trading plans.

1.2 Traders with a plan have the ability to monitor their performance. They can evaluate their progress continually, day-by-day, in a way that is objective and comprehensive. This enables them to trade without emotion and with minimal stress. The trader without a plan is not able to do this and their trading tends to rely upon gut feeling, hunches and tips etc. Trading for them is a nail biting, emotional roller coaster ride of stress that, inevitably, results in financial loss.

1.3 Obviously, a plan does not guarantee success; that would be too simple. However, a good plan that is adhered to strictly will help to minimise losses and enable you to stay in the game a lot longer than traders who do not have a plan. In his book 'trading online', Alpesh B. Patel writes, "While a plan cannot predict the future, it can lay down how you react to the possible outcomes. This is why a plan is essential. It is a list of strategic responses to events beyond your control. You control the only thing you *can* control – yourself".

1.4 Some confusion exists over the difference between a trading plan (or system) and a trading strategy. As stated above, the former is a complete set of rules that governs every aspect of your trading life. It goes into great detail and may, for example, stipulate the amount of time devoted to reading threads on T2W! The term 'trading strategy' tends to be used to describe trade entry and exit criteria. However, these are merely elements of an overall trading plan and possibly not even the most important ones. It is perfectly feasible, desirable even, to include two or more trading strategies (i.e. entry and exit criteria) within an overall trading plan.

2. Who Needs a Trading Plan?

2.1 Who needs a trading plan? Well, unless you have been a consistently profitable trader over a sufficient length of time to encompass a number of different market conditions, then YOU need a trading plan! If you have achieved this, then this document may not tell you anything you do not already know. However it may still prove useful as a "refresher" course or indeed open your eyes to new aspects of trading that can improve your profitability.

2.2 Some people have described a trading plan as a roadmap. It is quite literally the route that will take you from where you are now to where you want to be which, for most traders, is consistent profitability. In this analogy, consistent profitability is the destination. To embark on a car journey from John O'Groats to Land's End without a good roadmap would, probably, be unwise and the possible consequences of doing so are obvious. Similarly, to embark on trading without a clear idea of where you are going, and how you are going to get there, will almost certainly result in increased stress, sleepless nights and financial loss - or all three. The question you must ask yourself is this: if you would not dream of driving from the north of Scotland to the most southerly tip of England without a detailed roadmap, why on earth have you not got a detailed and clearly laid out trading plan?

3. What Will a Trading Plan Do?

3.1 A trading plan will make the act of trading simpler than it would be if you traded without one. It will limit your opportunity to make bad trades and it will prevent many psychological issues from taking root. It will help you to achieve these things because wherever you are on your trading journey, it will not only act as a roadmap, but also locate your position as well. Most importantly, if your trading is going badly, you will know it is down to one of only two possibilities: either something in the plan is not working or you are not adhering to the plan. If the plan is a good one and it is back tested and paper traded, (or forward tested with a very small amount of money) then the fault is likely to be found in the latter of the two options. But, what if you are losing money whilst trading without a plan? It is virtually impossible to distinguish what you are doing right from what you are doing wrong. You have no way to evaluate your results, therefore the likelihood of being able to diagnose the fault and correct it is small and could take forever. A trading plan is your personal GPS device to locate your position and, if you have made a wrong turn, it provides the means to identify where you went wrong and how to get back on track. You are able to evaluate continually your results and, more importantly - your discipline - in a manner that is objective and comprehensive. This is extremely difficult to do if you do not have a plan.

3.2 A trading plan should take away much of the decision making in the heat of the moment. Emotional issues will become very powerful when real money is on the line and, as likely as not, force you into making irrational decisions. With the correct trading plan, your every action should be spelled out, so that in the heat of the moment you do not have to make any decisions, you just follow what the trading plan stipulates.

3.3 Okay, I hope you are now totally sold on the merits of having a detailed and clearly laid out trading plan. Here is a summary of what the key benefits are:

- Relaxed, stress free trading that is simpler with a plan than it is without one
- Ability to monitor your progress, diagnose faults and amend the plan accordingly
- A plan helps to prevent many psychological issues from taking root
- A plan that is adhered to strictly will reduce the number of bad trades
- A plan will help prevent irrational decisions in the heat of the moment
- A plan enables you to control the only thing you can control - yourself
- Professional traders are highly disciplined. A plan will instil a large measure of discipline into your trading. Gamblers tend to lack both discipline and a plan
- A plan will enable you to trade outside your comfort zone. How many times have you let a loss run and cut a profit short because it was the comfortable thing to do? A plan, executed with discipline, will help to prevent this from happening
- A plan is your roadmap which will enable you to get from wherever you are now to wherever you want to be – i.e. consistent profitability
- The template (and, by implication, your plan) – is designed in such a way that if you do take a 'wrong turn' on your roadmap, you will know about it very quickly and have the opportunity to correct the problem before losses spiral out of control

4. Before You Start . . .

4.1 Before you start to create your own trading plan using the template, here are a few pointers to help ensure that you build the best plan possible. The template is broken down into eleven units. The objective of the exercise is to end up with a plan that is tailor made to suit your personality, ability and resources. Do not be tempted to skip any sections and be sure to work through them in the order that they appear. The order is specific for reasons that should become clear in due course. Think of the eleven units as links in a chain or as individual players in a football team; each one is as important as the other. For those of you who enjoy analogies such as these and wonder which unit best equates to the 'goalie', the answer is unit ten, 'Risk & Money Management'.

4.2 Quite a few of the units may seem beguilingly simple. Although the template is designed to be as simple as possible, be sure to give careful consideration to all your answers. For example, the first unit poses the question, *why do you want to be a trader?* "To make money", is a generic answer that is applicable to all traders. It is not personal to you and, therefore, it is not helpful to your plan. 'Trading is a business, just like any other', is a cliché that is often quoted and one that is all too easy to forget. You might enjoy a cappuccino from time to time, but chances are that you would not dream of taking up a Starbucks franchise - so why become a trader?

4.3 In answer to the question in 4.2 above, it may be that you have seen pit traders in garish jackets on television and thought to yourself 'I would just love to be that fired up and passionate about what I do'. If so, you may have a need for excitement. Ordinarily, such a desire is an admirable one but, in the markets, it could easily lead to catastrophe if allowed to go unchecked. Perhaps you have heard stories about traders making tens of thousands in a single day? Without doubt, some do; but they are only a small fraction of the mere 5% of traders who, so it is alleged, make any money at all in the markets. Crushing disappointment is often the reward for unbridled greed. Pie in the sky fantasies about trading via a laptop while aboard a luxury yacht, sipping champagne in the Bahamas, are great fun, but they are hardly grounded in reality. Such fantasies may help to motivate you to study the markets, but the emotions that accompany them may not help you when it comes to trading the markets. Just as the trader with a lust for excitement is doomed to fail, the fate of a trader motivated by greed is almost certain to lead to disaster.

4.4 Having these thoughts and emotions is not the problem; it is how you control them while you are trading that is the problem. Think very carefully about these questions and be brutally honest with yourself. Do not pretend to be someone you are not because you are embarrassed to commit pen to paper and admit that you are a thrill seeker chasing the Holy Grail of easy money. That is okay, after all, a good percentage of the 32,000+ members of T2W started out that way! In answering the question about why you want to be a trader, you will uncover the real motivations, fears and desires that fuel your ambition. Some of these will be helpful whilst trading, others not. How you allow them to impact your trading is what this document is, to a large extent, all about. To ensure that the impact is a profitable one, you must start by examining your real reasons for trading and, hopefully, learn more about yourself in the process.

4.5 Each unit comprises a series of questions (in bold Arial Narrow type, like this) followed by a few sentences (in Times New Roman body type, like this) to explain what the question is driving at. Then there is a basis for an answer *(in small Arial italic type, like this)* to provide further clarification. The latter is intended as a guide only and is not meant to constrain your thoughts and ideas in any way.

4.6 All your answers to the questions must be clear and succinct. There is no room for ambiguity in your plan; so avoid vague, fuzzy statements. Also, where possible, always define and qualify your statements. This usually means posing the questions - what, when, where, why or how. For example, suppose you swing trade the Dow Jones 30 Index. *Why* the DOW and not the FTSE 100? Because you want to trade in the evenings, after work? Okay, fair play. *How* will you ensure your success? Aha, you will start by writing a trading plan? Excellent! *When* will you write it? You get the general idea. Now, let us begin . . .

TRADING PLAN TEMPLATE

5. Know Yourself, Know Your Purpose

5.1 Almost any professional trader will tell you that the key to success in the markets lies in understanding your own psyche. (Understanding the psyche of fellow traders, collectively referred to as 'sentiment', is also an invaluable tool). Many inexperienced traders are unprepared for the violent assault on their thoughts and emotions at the start of their careers. They soon find their heads spinning with euphoria when winning (greed) and the pits of their stomachs knotted with anxiety when losing (fear). Contrast this with many professional traders who, it is said, achieve a sort of trading nirvana, whereby their thoughts and emotions blend into a sea of calm regardless of whether they are winning or losing. Their heads do not spin and their stomachs do not churn – ever. For you to achieve this exalted state, you will need to know yourself and how you will react to both winning and losing positions. Once armed with this information, your trading plan can incorporate some of the positive aspects of your psychological make-up and filter out some of its negative aspects.

5.2 Coupled with understanding your own psyche it is important to know why it is that you want to be a trader. What is your purpose - what does success as a trader mean to you? Decide what it is that you want to achieve and then ask why and how trading is going to provide it. How sad it would be if, after a year or more and hundreds if not thousands of pounds later, you realised that trading was not for you after all and that the ladder to success was leaning
up against the wrong wall. Okay, here goes – your very own trading plan starts now.

5.3 Why do You Want to be a Trader?

Question your true motivations. Examine whether your talents would be better suited to another business like the Starbucks franchise mentioned earlier. Are you certain that trading is the right business for you? If you believe that the markets exist for the sole purpose of showering you in vast quantities of easy money – then think again! Beware: it is NOT the easy option!

I want to be a trader because . . . (I am excited by the challenge to be successful in a discipline that is notoriously difficult and where, allegedly, 90% of participants fail). My primary objective in wanting to be a trader is to . . . (generate sufficient annual income of £______ in order to support my family). My secondary objective is to . . . (spend more time with my family and enjoy the freedom of being able to trade from anywhere in the world). These objectives are important to me because . . . (they provide purpose and direction to my life and enable me to lead a more balanced one). I believe I can achieve my objectives because . . . (my name is Larry Williams - say no more!)

5.4 What Sort of Trader are You?

Are you a discretionary trader or a mechanical one? Do you propose to trade in the long-term (i.e. months), medium-term (i.e. weeks) or short-term (i.e. days or, even, intra-day)? The choice of position trader, swing trader or day trader will, to a large extent, be determined by the amount of time you are able to devote to your business. Generally speaking, day traders remain glued to their monitors throughout the duration of every trade, whilst position traders may devote as little as one hour a week to the markets. Define your trading style and examine your beliefs about the markets.

I am a discretionary trader and my style is very . . . (aggressive - which makes me suited to scalping intraday or, alternatively, conservative – which makes me suited to swing trading end of day (E.O.D.)). I understand that I cannot predict the future and I accept that I cannot control the markets. However I can control myself, which I will do by . . . (adhering strictly to my trading plan that is detailed, specific, tested and profitable).

5.5 What are Your Strengths and Weaknesses?

List each of your trading strengths and weaknesses and then specify how you will maximise the benefit of the former and minimize the damage caused by the latter. This is often easier to do for other people than it is to do for yourself. Your background may provide some clues. Suppose you are an ex-fighter pilot who is used to working in a highly disciplined environment and adhering to a set of very strict procedures. (Potential strength). However, the flip side of the coin is that you may also have a need for fun, or an addiction to adrenalin pumping, nail biting excitement or, even, a subconscious desire to experience fear. (Potential weakness). If you are struggling to answer this question, try paper trading for a while and examine each trade, noting what you did right and what you did wrong. Do this until a pattern starts to emerge which should reveal your strengths and weaknesses to you.

My primary strength is . . . (allowing my profits to run and closing trades in accordance with my exit strategy. This contributes to 'my edge' and helps me towards my goal of being consistently profitable in the markets). My secondary strength is . . .

My primary weakness is . . . (wanting to recoup a loss quickly which, almost inevitably, results in increased losses). The following aspect of my trading plan will help to control this weakness and prevent losses from spiralling out of control . . . (I have a pre-defined daily stop. If it is hit, I stop trading for the day). My secondary weakness is . . .

5.6 Are You in the Right Frame of Mind to Trade?

Your mindset is the key obstacle that lies between you and success in the markets. Have you slept well; are you fit, healthy and mentally alert? Are you calm and relaxed or are you tired and distracted by other events in your life?

I will only trade on days when . . . (I am rested, relaxed and not distracted by work or family etc. I will be guided by my trading plan and I will adhere to it rigidly. It will help to prevent me from making trades that are poorly conceived and executed; i.e. trades that are based on gut feeing and motivated by fear and/or greed).

I will not trade on days when . . . (I am feeling off colour, hung over, particularly tired or when I am mentally distracted by other events in my life).

5.7 What are Your Income Targets?

There are numerous reasons for becoming a trader; making money is the one reason that unites us all. It is important to know your financial targets and to break them down into daily/weekly bite size chunks. The old adage 'by the inch it's a cinch - by the yard it's hard', certainly applies to traders. Needless to say, if your strategies only generate 5% a month, it is counter productive to have a target of 1% per day. Your targets are not idle fantasies, they must be based upon your back and forward testing results. (This is expanded upon in sections 10.7 and 10.8, in which we examine the 'Success' ratio and the 'Sharpe' ratio).

My financial targets are . . . (to achieve a return of X% per year, which equates to an annual income of £______ without the drawdown on my account exceeding a maximum of Y%. This equates to an average monthly income of £_____, an average weekly income of £____ and an average daily income of *£___. Therefore, I have a daily target of Z% of my total equity).*

6. Trading Goals

6.1 Setting goals is an essential part of your trading plan as they provide you with a beacon to work towards, the ability to track your progress and the motivation required to get the job done. Try to define your goals in terms of your development as a trader, as opposed to purely financial goals. If you focus on becoming a proficient trader, the financial rewards are sure to follow just as night follows day. Then decide how you will achieve these goals and how you will reward yourself once you do. The rewards should reflect the scale of the achievement as well as being specific and meaningful to you. For example, the reward of a night out should name both the venue and the people you intend to take with you.

6.2 What are Your Annual Trading Goals?

This is the big picture. Think in terms of the skills and knowledge that you want to acquire between now and this time next year.

My annual trading goal is to . . . (develop my trading 'edge' in order to tip the balance of probabilities in my favour. At the moment, this comprises three separate elements, namely: 1. I receive coaching from _____ ________, who is one of the best practitioners of the strategies that I employ. 2. I model the best trading practices, including having a written, clearly laid out trading plan. 3. My strategies are well developed, tested and monitored comprehensively to ensure that they remain tradable, market sensitive and profitable). I expect to achieve these goals because . . . (in addition to the coaching, I read xyz magazine and study the words of wisdom from the more experienced members *of T2W). When I achieve my goal, my reward will be . . . (a two week family holiday in sun drenched Andalucia, staying in a 'Cortijo' with an infinity swimming pool which magically spills over into the Straights of Gibraltar, set against the stunning backdrop of the Atlas mountains of Morocco).*

6.3 What are Your Monthly Trading Goals?

Now define your monthly trading goals. Again, avoid financial targets as much as possible. How will you achieve these goals and how will you reward yourself when you do?

My monthly trading goal is to . . . (achieve consistent profitability every month, with a Success ratio of 2:1 or more and a Sharpe ratio of 1.5:1 – or more). I expect to achieve these goals because . . . (I review my performance on a daily / weekly / monthly basis and quickly spot any problems, should they occur). When I achieve this, my rewards will be . . . (a celebratory meal out with my partner / family at the 'New Angel' restaurant, Dartmouth).

6.4 What are Your Weekly Trading Goals?

Time to get out the magnifying glass and zoom in on the details. Now define your weekly trading goals. How will you achieve them and how will you reward yourself when you do?

My weekly trading goal is to . . . (trade every day of the week in accordance with my trading plan. This will entail taking my stops instantly; sticking to my risk and money management strategies; following my exit criteria and devoting most of my time to searching for new trades and choosing only the very best setups). When I achieve this goal I will pat myself on the back by . . . (buying the digitally remastered recording of Miles Davies' landmark album 'Kind of Blue').

6.5 What are Your Daily Trading Goals?

Finally, put away the magnifying glass and get out the microscope. On a day-to-day basis, what are you trying to achieve? How will you measure your progress and how will your hard work be rewarded?

My daily trading goal is to . . . (trade according to my plan. Today I will stick to my plan because it is detailed, specific, tested and profitable. I am confident that I have the self discipline to adhere to it which, in turn, will ensure that my weekly, monthly and annual goals are met). Assuming that I stick to my plan, I will pat myself on the back by . . . (having a little 'night cap' at bedtime. Nothing blended - single malt, obviously!)

7. Markets, Instruments & Timeframes

7.1 Which Markets will You Trade?

Decide upon the market you wish to trade; the instrument(s) that are available within that market and the reasons for your choice. As a general rule of thumb, professional traders tend to restrict their focus to a limited number of markets and instruments. By contrast, novice traders tend to trade index futures one day, currency pairs the next and exotic sounding commodities like pork bellies the day after that, etc!

The instruments that I will trade are . . . (U.S. stocks in the evening after work because good opportunities exist in the 7-9pm session. They also provide excellent liquidity, volatility, tight spreads, fast fills, low commissions and no stamp duty).

7.2 Which Instruments will You Trade?

Will you confine yourself to a basket of stocks or will you trade anything and everything on the XYZ exchange? If you trade futures, how many different markets will you trade, and why? If you are a forex trader, how many currency pairs will you trade, and why?

The quantity of stocks / futures contracts / currency pairs that I will trade will . . . (not exceed X and be determined according to their liquidity, i.e. a minimum daily volume of 2 million shares, and according to their volatility, i.e. an average minimum daily range of $1.50).

7.3 Which Timeframes will You Trade?

Hopefully, you have decided what sort of trader you are or want to become, i.e. an intraday, swing or position trader. Now you need to focus in on your timeframes within the category of your choice. Be very clear in your own mind about the number of timeframes you use and why you use them. For example, a day trader may use a 1 minute timeframe to enter a trade, a 5 minute timeframe to exit a trade and a 15 minute timeframe to help determine the trend throughout the duration of the trade.

As a swing trader, I will use . . . (daily charts to determine the trend; 10 minute charts to enter and exit positions and 60 minute charts to monitor my open positions).

8. Tools of the Trade

8.1 Which Financial Vehicle will You Use to Trade?

Whichever vehicle you use to trade; Shares, Spread Betting, Contracts for Difference (C.F.Ds.) etc. understand fully the pros and cons associated with your choice. This applies to Spread Betting especially. Without question, it is a very popular financial product that is ideal for novice traders, but it does have its drawbacks. For example, it is almost impossible to day trade profitably using this trading vehicle.

My choice of financial vehicle is . . . (Spread Betting because I can open an account with just £100, trade just 1p per point and profits are currently tax free. However, I understand the limitations of this product and that it is best suited to swing trading).

8.2 Which Broker and Trading Platform will You Use to Trade?

Your broker and trading platform are critical to your performance, just as Roger Federer's tennis racket or Jonny Wilkinson's rugby boots are critical to theirs. Both players would perform well with any old kit, but choosing these primary tools with great care helps them to achieve consistent sporting excellence. As a starting point, the choice of broker is likely to be determined by the following six things:

1. The instruments that you wish to trade. If, for example, you wish to trade U.S. stocks, which broker offers the largest universe of shares and how do their spreads / commissions compare with their competitors?
2. The vehicle (or financial product) you use to trade the instruments of your choice. Spread betting, C.F.Ds., options, futures, forex or direct access?
3. The size of your account. If you have only limited capital with which to fund your trading, you are not going to be able to open a Patten Day trader (P.D.T.) account with a direct access broker. Furthermore, the choice of brokers offering C.F.Ds is likely to be limited. Spread Betting may be your only viable option and is where many new traders start.
4. The platform you use to trade. This is usually the one supplied by the broker. It must offer the features that you require and you must be comfortable using it.
5. The level of support and customer service offered by the broker. Check out the reviews on T2W to see how the broker you propose to use fairs.
6. Your level of experience. Many professionals advise the novice trader against opening an account with a futures broker and, say, starting to trade the e-mini S&P. Choose instrument(s) and a broker that you can cut your teeth on and minimise the risk of losing your shirt!

My choice of broker is . . .(Fleece'Em.com because they offer the universe of stocks that I require with competitive spreads; they have won numerous industry awards for their lightning fast trading platform and their customer service is second to none).

8.3 Which Software & Data Feeds will You Use to Trade?

If your trading decisions are based upon technical analysis (T.A.), make sure your data provider and charting platform has the features you want but is not charging you for fancy gizmos that you do not need and will not use.

My choice of data feed is . . . (SlowQuote.com because they provide data for the instruments I want to trade, whilst providing the option to upgrade, giving me access to other exchanges with real time data in the event that my trading style and strategies change).

9. Before the Market Opens . . .

9.1 To begin trading without doing your homework beforehand is a bit like embarking on that car journey from John O'Groats to Land's End mentioned earlier without checking the oil and fuel levels before setting off. It is essential to undergo a daily pre-market routine to ensure that you are prepared fully for the trading day ahead.

9.2 What is Your Daily Pre-market Routine?

As the question implies, these are the things you do every day to ensure that when the time comes to 'pull the trigger', the probable outcome is in your favour.

My daily pre-market routine comprises five key areas, namely . . . (1. To analyse and log yesterday's trades. 2. To review any open positions and update targets and stops. 3. To assess today's market conditions and plan accordingly. 4. To plan the day ahead, hour by hour. 5. To make an initial selection of possible instruments to trade).

9.3 Have You Analysed Yesterday's Trades?

Have you completed your analysis of yesterday's trades, logged them and updated your journal? Did you adhere to your plan and, if not, what effect does this have on your trading activity today? In other words, your ability (or otherwise) to stick to your trading plan *yesterday*, should determine your trading activity *today*.

Each day, I will ensure that yesterday's trades are . . . (analysed and logged and that my trading journal is up to date. Additionally, I will check to ensure that I adhered to all aspects of my trading plan).

In the event that I fail to adhere to my trading plan . . . (I will amend the new day's trading activity in accordance with the discipline procedures detailed in section 14.3 of my plan).

9.4 Have You Any Positions Open?

If it is not clearly laid out in your plan to hold positions overnight, don't! However, if you are a swing or position trader, you may well have some open positions.

If I have positions open in the market . . . (I will update targets and stop losses and confirm that the reasons for entering the trade in the first place are still valid).

9.5 What are the General Market Conditions?

Are there any major news stories impacting the markets? What are the index futures doing? Are there any key economic reports due out and at what time etc.?

Before trading, I will check . . . (1. index futures to see if they are flat, trending up/down or mixed. This is a positive/negative sign because . . . 2. to see if any key economic reports are due to be released and at what time – i.e. Michigan Sentiment. 3. to see if any key personnel are due to make announcements / speeches and at what time – i.e. company C.E.Os. or Alan Greenspan addressing Congress etc).

I aim to trade the market reaction to these reports and speeches. Therefore, I will not trade for . . . (the first 15 minutes following the speech / announcement and observe the reaction to it by the market. This will help to ensure that I 'trade what I see and not what I think').

9.6 What Will You Do Today – Hour by Hour?

If you do not plan each day hour by hour, chances are that you will just drift. This could result in missed opportunities or, worse still, departing from your plan and taking 'boredom trades'. Providing structure to your day encourages discipline, maintains focus and ensures that your work time is used to maximum effect. Be sure to factor in regular breaks from your computer with specific times for eating to discourage snacking!

As a U.S. day trader, I have a daily diary which . . . (covers the market hour by hour. Before 12.00 noon GMT is free time for relaxing, checking out threads on T2W etc. 12.00 noon – have lunch, 1.00pm – undertake the tasks outlined in parts 9.2 to 9.5 of my plan. 2.00pm – prepare for the open; search for opening gap plays and load alerts. 2.30pm – trade the open. 2.45pm – search for potential 3 o'clock reversal plays. So on and so forth throughout the rest of the day).

9.7 Which Instruments are on Your Watch List?

Finally, you can start to look for today's trading opportunities. Scan your universe of instruments and split the results according to the strategies that you employ. For example, if you are a day trader, you may have a 'retracement' strategy to trade the open, followed by a 'breakout' strategy after the first half hour or so and, finally, a 'reversal' strategy for the evening session.

I will scan my universe of instruments in order to . . . (select candidates for the strategies that I employ. Auditory and/or visual alerts will be set for entry and exit signals). I will update the charts for all the instruments on my watch list showing . . . (key resistance and support levels, yesterday's open, high, low and close etc).

10. Risk & Money Management

10.1 This is the crux of the whole document. Failure to apply sound risk and money management principles will, almost certainly, be financially ruinous. First of all, let us define the difference between risk and money management. Risk management focuses on the steps necessary to *minimise losses* by assessing market conditions, risk-reward, probability and the use of stop loss orders etc. Money management, on the other hand, focuses on the steps necessary to *maximise profits* by the use of trailing stops and adjusting position size etc. This is summed up perfectly in that giant of trading axioms: 'cut your losses short (i.e. risk management) and let your profits run (i.e. money management).

GENERAL RISK MANAGEMENT

10.2 What is Your Attitude Towards Risk?

This may seem an odd question, but it is a good starting point to ensure that your feelings about risk are compatible with your trading style. David S. Nassar, in his book 'How to Get Started in Electronic Day Trading' has this to offer on the subject: "Think of the stock market as a nuclear reactor – the more you are exposed to radiation the greater the chance of getting burned. Market risk is measured by the amount of time you are in the market. It could be seconds, minutes, hours, days or weeks. The longer you are in the market the greater the chance something will go wrong. Therefore, the trading style that keeps you in the longest can also be the most risky". Many traders will totally disagree with this and feel much happier and sleep better at night by holding medium to long-term positions. For them, trading momentum plays in volatile Nasdaq stocks intraday carries far too much risk.

My attitude can be summed up as being . . . (risk averse and always seeking to minimise risk wherever possible. I will achieve this via diversification and adhering strictly to the risk management regime contained in this section of my trading plan).

10.3 What is the Overall Market Risk?

Now decide the maximum amount of capital that you will put at risk at any one time. Be prepared for the worst. In the event of another market crash like '87 or a terrorist attack like 9/11, having too much of your equity committed to the market could result in catastrophic loss. Many traders will not risk more than 1% on any one trade, with a maximum exposure on all open positions of 5% in total. In other words, if all the positions you have open at any one time were stopped out simultaneously, the drawdown on your account would not exceed 5%. Nasty, but not disastrous.

My maximum exposure in the market will . . . (not exceed a combined total of 5% of my capital at any one time).

10.4 What is the Sector Risk?

Anyone who saw the fictional television drama 'The Man Who Broke Britain' (09/12/2004 on BBC2) will recall what happened to the city trader who was over extended in a bank that traded oil futures very heavily. She, and the bank, did well until terrorists blew up the world's largest oil refinery. Oops! No fat cat bonus for the city trader and, ultimately, no job. One way to control sector risk is to limit the number of positions in any one sector.

My maximum exposure in any one sector will . . . (not exceed a combined total of 3% of my capital at any one time).

10.5 What is the Broker and Hardware Risk?

Suppose your broker goes down and you have no way of closing your positions. How will you handle this scenario? Similarly, what will you do if you need to take action when (not if!) your PC crashes?

My main broker is . . . (FleeceEm.com and my back up broker is Doolittle & Dally. In extreme circumstances when my main broker is down, I have the option of hedging my positions with my other broker).

In the event that my PC crashes . . . (I have a back up PC with a dial up modem connection and all my data is backed up daily onto CD. Additionally, I always have my mobile on and fully charged while trading, with numbers of the key departments of both brokers stored in the memory).

10.6 What is the Strategy Risk?

The markets are constantly changing and a strategy that was profitable last month / year may not be profitable next month / year. There are ways of monitoring this that are discussed in unit 13 'After the Market Closes . . .' However, as a long stop, prepare for the ultimate risk – the one that probably will happen sooner or later. Namely, your once brilliant and hugely profitable trading strategy no longer works! Control this by measuring the largest % drawdown on each strategy employed. Multiply this by a factor of 1.5 to 2, and if the drawdown ever exceeds this figure, STOP trading the strategy immediately!

I will monitor the drawdown on all my trading strategies. In the event that this figure . . . (exceeds X%, I will stop trading that strategy immediately and review the whole approach).

SPECIFIC RISK MANAGEMENT

10.7 What is the Probability of a Successful Trade?

When it comes to assessing the specific risk associated with a proposed trade, most traders focus only on the risk-reward ratio. Unfortunately, this is somewhat meaningless unless probability is factored into the equation. Here is the reason why: suppose one determines the risk-reward ratio to be 4:1 – a gain of 80 points while only risking 20. In isolation, this looks excellent. However, if the probability of a trade being successful is only – say 20%, *i.e. the probability of a 20 point loss is 80%*, suddenly the proposed trade does not look quite so attractive!

To assess the probability of success of a trading strategy we must start by defining the trade setup. This needs to be extremely precise, unambiguous and crystal clear. This is vital in order to spot the setup in real time, trading with real money. Once the setup is defined, it can then be back and forward tested to see if the probability of its success outweighs the probability of its failure. To complicate matters, there are numerous variables that will, between them, influence the outcome. Try to isolate these variables at the back testing stage by studying historical charts to see what they have in common. For example, the setup may have a higher probability of success if it appears just above a round number (for a long position) than it does if it appears just beneath it. Try to keep it simple. Do not get bogged down in the details of the trade (i.e. entry trigger, stop loss placement and exit strategy etc.) when defining and then testing the setup. Eventually, if the definition of the setup is precise enough and the testing of it is rigorous enough, it should be possible to assess the number of profitable trades relative to the number of unprofitable ones. This is often referred to as the 'Success' ratio and can be expressed as a percentage by dividing the total number of profitable trades by the total number of trades made (winners and losers) and multiplying by 100.

My setup(s) is . . . (clearly defined in section 12.3 of my plan and I am so familiar with it that I can spot it in real time instantly. Extensive back testing and forward testing by paper trading provides consistent data that indicates the setup has a probability (i.e. Success ratio) of X%).

10.8 What is the Risk-Reward Ratio?

To determine the risk-reward ratio, we need to know the 'Success' ratio or probability ratio described in 10.7, above and the 'Sharpe' ratio. The latter is the average number of £££'s made on profitable trades, relative to the average number of £££'s lost on unprofitable trades. To express this as a percentage, divide the average £££'s gained on profitable trades by the combined figure of the average number of £££'s gained and lost and then multiply by 100.

For the sake of argument, let us suppose that we have a Success ratio of 2:1 - i.e. a probability of success of 66%. Additionally, we also have a Sharpe ratio of say, 1.5:1 - so that if we risk £40.00 we stand to make £60.00 on the winning trades. The Success ratio tells us that we win 2 out of every 3 trades and the Sharpe ratio tells us that, of the 2 winners, we make 2 x +£60.00 = +£120.00. Our one losing trade of the three costs us -£40.00. On all three trades we risked £40.00 and ended up with a net gain of +£80.00. Therefore, if we divide the net gain by the amount we risked, we arrive at a risk-reward ratio of 2:1. However, a word of caution: all of this assumes that we only trade the setups defined in our plan and that they have been thoroughly back and forward tested to determine their probability of success.

I have forward tested my strategy initially by paper trading it and subsequently by using very small sums of money in live trading. The results enable me to determine . . . (a 'Success' ratio of 2:1 or better and a 'Sharpe' ratio of 1.5:1 or better. Therefore, I have calculated my risk-reward ratio to be in the order of 2:1 or better).

10.9 What is Your Risk Per Trade?

Fact: being able to predict market direction 99% of the time is useless if you risk 100% of your equity on every trade. You could make a fortune but, eventually, you WILL lose everything! Many traders will not risk more than 1% of their total equity on any one trade, unless their account size is very small - then this figure may rise to around 3%.

For every trade I enter, I will not risk more than . . . (2% of my total equity. For each trade I will identify the ideal stop loss point and vary the number of contracts/shares to ensure that I do not risk more than 2%).

10.10 Where Will You Place Your Stop Loss Orders?

Every trade you make MUST have a stop loss. Unless you are a seasoned professional trader, make sure it is an actual pending stop order in the market, NOT a mental stop! This will ensure that all losses are cut short. Also, if at all possible, make it market controlled and not a fixed percentage (i.e. 2%) of your equity. E.g., if you trade pullbacks, and your strategy dictates that you place your stop loss just below the low of the pullback, then that is where it should go. Vary the number of contracts / shares to ensure that you remain within the risk per trade parameters defined in 10.9, above. Admittedly, this can be tricky to achieve on small accounts.

For every trade I enter, I will decide in advance where to place my stop loss in the event that the trade goes against me. Its placement will be governed by. . . (the type of trade; i.e. tight for a scalping strategy and wide for a swing trade strategy).

10.11 When Will You Stop Trading?

Knowing when to stop trading is both good discipline and good risk management. Additionally, it helps to prevent chasing losses on losing days and helps to prevent greed from rearing its ugly head on winning days. Every single trading day should end in one of three ways, namely: 1. On a winning day, you have a very simple rule for stopping trading once you have reached your target. 2. On a losing day, you have a daily stop and cease trading as soon as it is hit. 3. Some days there are not any trading opportunities to be had, so you do not trade at all.

1. Upon reaching my daily target I will stop trading . . . (after the first losing trade). 2. Before reaching my daily target I will stop trading . . . (after two losing trades). To ensure further that my losses are kept to a minimum, I will . . . (have a maximum daily stop of 3% of my equity). 3. I will not trade at all on days where . . . (I do not see the setups and entry triggers, exactly as specified in my plan).

GENERAL MONEY MANAGEMENT

10.12 Large Drawdowns and Profits – What Will You do?

Your trading capital must be money that you can afford to lose and be set aside from everyday expenses. If you lost the lot, it should make no difference to your standard of living. Clearly define in your plan the extent to which you will credit additional funds to your account in the event of large drawdowns and debit the account when it starts to burst at the seams with huge profits!

In the event of a large drawdown, I will . . . (only credit additional funds to my account with 'spare' money that I can afford to lose. I will not commence trading again until I have identified the cause of the drawdown and have re-tested the strategy to ensure that it meets my profit objectives).

When my trading equity exceeds the amount I need to trade my strategies, I will . . . (withdraw the surplus and give it all to that great bloke from T2W called 'timsk' who started that thread . . !)

10.13 Which Money Management Approaches Will You Utilise?

If you are starting with a small account, say £5,000 or less – what are your objectives? If, for example, you want to be a 'pattern day trader' (P.D.T.), your account will need to grow by at least 350% in order to achieve the $25,000 minimum necessary to open a

P.D.T. account. As the profits come in, will you risk more per trade, diversify into other trading strategies or adopt a completely different approach?

As my trading account grows, I will . . . (increase my position size to a maximum of X contracts / shares whilst remaining within the parameters of my risk management strategy).

SPECIFIC MONEY MANAGEMENT

10.14 Will You Lock In Profits?

Utilising a trailing stop to lock in profits once the trade is on the right side of break even has two clear advantages. 1) At worst, you may end up with a scratch trade – but no losses. 2) At best, it allows profits to run which enables you to take a sizeable chunk out of the expected move.

I will utilise a trailing stop which I will position . . . (x points below the lower high in an uptrend or y points above a higher low in a downtrend).

10.15 How Will You Determine Your Position Size?

The size of your position should never exceed the parameters specified in your risk management rules. That said, there are still many options available. Some strategies might have a high probability of success (e.g. trend continuation strategies) enabling you to adopt a more aggressive position size at entry. Other strategies might have a lower probability of success (e.g. reversal strategies) and your risk management criterion dictates a more conservative position size at entry. However, once the trade and the new trend are established, it may be advantageous to add to the position at specific continuation signals. Potentially, this allows for a large position size to accumulate, whilst all the time maintaining a very low exposure to risk.

I am a scalper so this approach does not apply to me!

I am a swing trader and I will build my position by . . . (adding x contracts / No. of shares at the next ABC continuation pattern. After that I will add . . .)

11. Exit Strategy

11.1 Exit strategies are harder to get right than entry strategies. Unfortunately, they are much more important because, self evidently, they control the profit and loss. If you trade more than one strategy, you will need to answer these questions for each strategy employed as the signals that determine your exits may vary. Arguably, for discretionary traders, the best exit strategy is one that is dynamic and market controlled, as opposed to a rigid mechanical strategy imposed upon each trade, regardless of market conditions. The difference between the two can best be explained with an example. Suppose you have a mechanical strategy that is based upon a 3:1 risk reward ratio. So, if you risk £30.00, you will exit as soon as the trade shows a profit of £90.00 or a loss of -£30.00, whichever gets hit first. Very simple. If you have a Success ratio of 26% or more, then in time, you will make money. Not a lot, but some. Chances are that a good percentage of the losing trades will show some gains before moving against you and triggering your stop. Additionally, a handful of the winning trades will go on to achieve much larger gains than the £90.00 you took when you closed the trade using the mechanical exit. A dynamic, market controlled exit enables you to take some money off the table offered by the eventual losers and let the big winners run to realise a greater proportion of the increased gains on offer. These additional profits could transform an overall trading strategy from one that barely breaks even into one that is very profitable indeed.

11.2 Losing trades - Will You Exit Before Your Stop is Hit?

Some strategies always exit the trade at the point that the stop loss is triggered and not before. The advantage of this approach is that it allows you some extra ‘wiggle’ room, which may result in a profitable trade. Conversely, the downside is that your losing trades are always at the maximum allowed by your strategy and, in the event of a bad fill, may even exceed the maximum.

If the trade goes against me, my exit strategy permits me to . . . (close the trade early if the conditions in 11.3 below are met).

11.3 Losing trades – Which Signals Will See You Exit Early?

If you opt to close the trade before your stop loss order is filled, what are the precise signals that will trigger your exit?

If the trade goes against me, I will exit before the stop loss order is filled . . . (if the price does not move X points in my favour by the close of the next price bar following entry).

11.4 Winning Trades – Which Signals Will See You Exit Completely?

There will be times when it is advisable to get out – and fast! Be prepared for those occasions and know in advance what signals to watch out for.

I will close my whole position immediately . . . (upon the price crossing the XYZ moving average).

11.5 Winning Trades – Which Signals Will See You Close Half?

A popular approach is to close half your position at the first target or at the first sign of weakness and let the other half run.

I will close half my position . . . (upon a X% increase/decrease in volume compared with the previous price bar).

11.6 Winning Trades – Which Signals Will See You Close the Remainder?

Even if your exit strategies thus far are well planned and executed, the success of your entire strategy could still hinge on how you exit the second half of a profitable trade.

I will close out the second half of my position . . . (at the very end of the day, based on my research which indicates that on trending days, my instruments close within X% of the high of the day (H.O.D.)).

12. Trade Strategies, Setups & Entries

12.1 Strategies vary according to market conditions, the time of day and the timeframe in which they are traded. Arguably, virtually all strategies fall into one of three generic groups: breakouts, retracements and reversals. Within these groups are individual strategies, some of which have fancy names and are well known. For example, 'The Sonic Boom Dive' is a retracement strategy described by Van K. Tharp in his book, 'Financial Freedom Through Electronic Day Trading'. The vast majority, however, remain locked in the minds of the traders who created them and form part of their 'edge'.

12.2 Which Strategies Will You Trade?

Many professional traders recommend having at least two different trading strategies, one for a trending market and one for a non-trending market. Additionally, they would recommend getting just one strategy up and running – i.e. one that is tested and profitable – before attempting to introduce another. Keep it simple!

My primary trading strategy is designed for a non-trending market. It is a . . . (retracement strategy, trading stocks that gap up/down at the open. The premise is that the market tends to over react to news, be it good or bad, causing the price to become over extended. Subsequently, it then reverts to a more equitable level and the gap is often filled).

My secondary trading strategy is designed for a trending market. It is a . . . (breakout strategy, which aims to jump on the bandwagon upon the continuation of a strong trend).

12.3 What are Your Setups?

A setup is the set of characteristics that enables you to identify a high probability trade prior to your entry trigger being hit. Try and keep the components of your setups very simple, in order that you may spot them quickly in real time and assess their potential in an instant. It is imperative that your setups are very clearly defined and thoroughly tested prior to live trading in order to determine their probability of success. This cannot be over emphasized, so much so in fact, that failure to define and test your setups will largely invalidate your trading plan and render useless all your work thus far. It is one of the characteristics that separate the professional trader from the 'shoot from the hip' gambler.

The setup for my primary strategy comprises the following elements . . . (1. Opening gap is 1% - 3%. 2. The 50-day moving average must be clearly in the direction of the proposed trade. 3. The gap should be into resistance / support, but not breaching it. 4. Evidence of strong volume pre-market).

The setup for my secondary strategy comprises the following elements . . . (1. Price must be in a clear up / down trend according to my definition of a trend, which is . . . XYZ. 2. Price breaks through yesterday's high / low of the day to make a new high / low. 3. Price pulls back to yesterday's high / low but does not breach it).

12.4 How Will You Find Your Setups?

If your trading is confined to one or two instruments, this is easy! However, if you trade stocks listed on the Nasdaq or NYSE, for example, then you will probably need to scan everything listed on the exchange in order to find the setups that you require.

I will find the setups that I require by . . . (utilising the bespoke stock scanning software from ClerverClogs.com. The criteria for each scan is defined by the characteristics of the setups for each trading strategy).

12.5 Which Signals Will Trigger Your Entry?

Clear, precise and succinct statements characterise a good trading plan. In answering this question, it is vital that there is no room left for ambiguity. In other words, if 100 traders read your answers to this question, would they all try to enter your trades at the same time and at the same price? This is a tough goal to achieve, but aim for it nonetheless.

The entry trigger for my primary strategy is . . . (to go long upon breach of the open on a 5 minute chart providing the open is the high of the day (H.O.D.). Reverse for a short trade).

The entry trigger for my secondary strategy is . . . (to go long when the stock resumes the direction of the trend and hits yesterday's high on a 10 minute chart. Reverse for a short trade).

13. After the Market Closes . . .

13.1 Once you have finished trading for the day, it is tempting to crack open a bottle either to celebrate or to drown your sorrows! Your trading plan may or may not allow for these activities. Either way, it must include examining both winning and losing trades. It is essential that you know what you did right and, more importantly, what you did wrong.

13.2 Have You Recorded Today's Trades?

Recording all your trades is a must and is something all professional traders do routinely and comprehensively. Details to write down include: entries, exits, stops, targets, S&R levels, open / close, high / low of day, duration of trades and key lessons learnt.

After the market closes, I will . . . (1. examine each trade and write down the following details . . . XYZ. 2. Annotate a chart and back up same on C.D. for future reference).

13.3 Did You Execute Your Trades According to Your Plan?

It is tempting to gloss over this question. Don't! If you are not routinely executing trades in accordance with the plan, then you either have a serious problem with self-discipline or there is a problem with your plan. Either way, you have a BIG problem and one that needs to be addressed immediately.

In addition to recording all my trades, I check to . . . (confirm that all trades are executed in accordance with my plan. If they are not, I will assess if the reason is a fault with the plan itself or a discipline issue and take action accordingly).

13.4 Have You Completed Your Trading Journal?

Trading and emotions are like oil and water. Or at least they should be! Your trading plan is designed to ensure that you trade unemotionally. If you struggle with this, then consider a mechanical strategy. Your trading journal is the one place where you can vent your emotions and express your feelings.

I regularly update my trading journal with . . . (my thoughts and feelings about each trade and my conclusions about the day as a whole).

14. Discipline!

14.1 Having a comprehensive trading plan with detailed entry and exit criteria and excellent risk and money management procedures all count for nothing if you lack the necessary discipline to implement them. This section is about ensuring that you stick rigidly to the commitments that you have made to YOURSELF in the previous nine units. Adhering to your plan is relatively easy during periods of profit. However, the real test will be your ability to stick to it when your trading is not going so well.

14.2 Back Test or Forward Test?

Before you commence live trading, it is important to test your trading strategy. If you are a mechanical trader, this can be done mathematically with programmes like TradeStation and, even, MS Excel. If you are a discretionary trader, manually back-test it if at all possible and then ‘forward-test’ by paper trading your strategy. Whilst paper trading will not reflect how you will trade in real time, it will indicate whether or not your basic strategy is unprofitable or, hopefully, a potential goldmine.

Before I commence ‘live’ trading with real money, I will . . . (back test and/or forward test my strategies to ensure that they are tradable and meet my profit objectives without exceeding my risk and money management parameters).

14.3 What are Your Promises to Yourself?

These are promises that are designed to enforce self-discipline. What sanctions will you impose upon yourself if you break one of your trading rules? Worse still, what about if you break two in a row?

If I break one of the rules detailed in my trading plan I will . . . (stop trading for a full day and focus on the reasons why there was a breach of discipline).

If I break two of the rules detailed in my trading plan I will . . . (stop trading for two full days and focus on the reasons why there was a breach of discipline).

If I break three of the rules detailed in my trading plan I will . . . (stop trading indefinitely until I address the reason for my poor discipline and, if necessary, amend the trading plan).

14.4 What Questions do You Ask After a Winning Trade?

After a winning trade, there are some questions that need to be answered before moving on to the next trade. Did you do everything right; was the trade well planned and executed? Although it was profitable, could you have extracted more profit whilst adhering to your exit strategy? Your next trade could be a dud: are you sufficiently calm and relaxed to continue trading or should you take a break?

After a winning trade I will . . . (1. guard against over confidence and ensure that my attitude remains consistent. 2. check to see that I did everything as well as I could. 3. remind myself that executing the trade in accordance with my plan is more important than the outcome of the trade).

14.5 What Questions do You Ask After a Losing Trade?

Repeat the process above after a losing trade. It is acceptable, desirable even, to regard a losing trade as a *successful trade* – IF (and it is a big if) - you adhered to your plan. You know that you will have losing trades; all traders have them. There is no reason to lose confidence as long as you manage the losses and keep them small. Are you ready to continue trading in a calm and relaxed way or are you now subconsciously chasing the loss?

After a losing trade I will . . . (1. examine the trade and learn what I can from it. 2. check to ensure that I executed all aspects of the trade in accordance with my plan. 3. evaluate my state of mind to ensure that I am calm, relaxed and ready to enter the market again with an unemotional and professional attitude).

14.6 What Steps do You Take to Learn More About Trading?

Practical experience is, of course, essential. However, it would be wise to complement this with learning and studying. The trick here is to plan a course of study to ensure that your valuable time is spent in a focused way and advances your knowledge as quickly as possible. Trading is such a huge subject that one way or another, it is inevitable that you will read, watch and listen to a mere fraction of the information available. It is vital to ensure your precious time is concentrated on the 'right' material.

I will ensure that of the X hours per week devoted to trading . . . (Y hours are spent studying the subject. Of this time, I will devote A hours to reading books, B hours on T2W and C hours on other media).

15. Golden Trading Rules

15.1 What are Your Top Ten Golden Trading Rules?

Your rules should be ones that are pertinent and meaningful to you. Here is a list to get you thinking. Some of your rules may be on it, others not. For example, one which is omitted here but is likely to feature on many lists is: *Trade With The Trend: No Trend, No Trade!* It is an excellent rule, unless you are a trader whose main strategy is to fade the intraday trend or trade a longer-term retracement.

#1. PROTECT & PRESERVE YOUR CAPITAL!

Inexperienced traders enter the markets focused on how much money they stand to make. Professional traders do the exact opposite; they focus on how much money they stand to lose and how they will ensure that any loss is kept to an absolute minimum. Follow the lead from the professionals: protect and preserve your capital.

#2. ALWAYS SET A STOP LOSS. ALWAYS!

One way to help achieve rule No.1 is to set a stop loss. If practicable, do this before opening a new position. Never rely on a mental stop loss. This is the sole preserve of a rare breed of trader: one who is very experienced and consistently profitable. The stop loss lies at the heart of all risk management strategies and is absolutely vital to ensure that you ‘cut your losses short’. So, no arguments: always set a stop loss.

#3. CUT THE LOSSES SHORT – LET THE PROFITS RUN!

Cutting the losses short is achieved by always having a stop loss! Additionally, continually ask yourself this question: ‘had I not entered this trade when I did, would I want to be in it now’? If the answer is no, then exit immediately. You do not have to wait for your stop to be triggered before exiting a trade! Letting the profits run is down to money management and an excellent exit strategy. Fine-tune these elements of your plan to cut the losses short and let the profits run.

#4. TRADE WHAT YOU SEE – NOT WHAT YOU THINK!

Egos and trading do not mix. The little voice inside your head that tells you what the market is going to do next needs to be gagged whilst trading. Whilst you are listening to him / her, you are not paying attention to what the market is revealing to you. Focus on your charts, your indicators if you use them and the price action. Look at this information and trade what you see, not what you think.

#5. NEVER CHASE YOUR LOSSES. EVER!

After a losing trade it is imperative that the emotions are kept at bay. This can be hard to do, especially if it is a silly error that led to the loss. When you re-enter the market, you will be trading for revenge. If you chase your losses, determined to recover them, the consequences are likely to be disastrous. Almost inevitably, this results in more losses, more emotions and so on. So, never chase your losses. Ever!

#6. NEVER AVERAGE DOWN. EVER!

This follows on from rule No. 5. Commit both these ‘sins’ and you run the very real risk of a blow-up. The compiler of this document decided to put this theory to the test and lost 70% of his account on just one trade lasting 24 hours. Averaging down is a tactic deployed by long term buy and hold investors and should never be practiced by traders. If the trade goes against you, get out fast. Never average down.

#7. KEEP EXCELLENT RECORDS!

Strategically, it is essential to keep records of all your trades. Not just the profit and loss, but also the reasons why you did what you did when you did. Additionally, many traders keep a journal to record how they felt about each trade. Records act as your personal GPS device and enable you to determine how well you are sticking to your plan.

#8. MAINTAIN DISCIPLINE!

Keeping excellent records will also enable you to see at a glance just how disciplined you are in your trading. Failure to address issues of self-discipline will, almost certainly, be reflected in your trading performance. If you fail consistently in this regard, you have two options: 1. Consider switching to a mechanical strategy, as computers have an exemplary track record when it comes to discipline. 2. Give up trading – it is not for you.

#9. KEEP IT SIMPLE!

Many top professionals use disarmingly simple strategies that are executed with the bare minimum of indicators. Their focus is to maintain their self-discipline and to trade according to their plan. Make it easy on yourself and keep everything as simple as possible.

#10. PLAN THE TRADE – TRADE THE PLAN!

Trading is not gambling; it is a business. However, the trader who enters the markets without a well conceived, detailed and thoroughly tested trading plan, is no better off than the punter who throws darts at a board blindfolded in order to determine which horse to back.

15.2 Conclusion

If you have got this far and answered all the questions – CONGRATULATIONS! You are now among a minority of traders who have a detailed and tested plan. Your future success as a trader is by no means guaranteed, but by completing this template and creating your very own bespoke trading plan, the odds have shifted significantly in your favour.

If you have any constructive criticism about this document, or aspects of your own plan that are not included in this template that might benefit others, then please post your views and ideas on the thread. (See introduction for link). Good luck and happy trading!

TRADING PLAN EXAMPLES

16. Roll Up, Roll Up . . .

16.1 The perfect complement to this document would be a handful of completed trading plans created using the template. In an ideal world, there would be at least three: one for index futures traders, one for forex traders and one for stocks traders. Each of the plans would also cover the three main timeframes: day trader, swing trader and position trader. Self evidently, trading plans contain a lot of highly personal information that, understandably, most traders would not want published on a public forum like T2W. Such details could be blanked out and your anonymity could be guaranteed to protect you from e-mails and private messages etc. Real plans created using the template would put ‘flesh on the bones’ of the template and provide a valuable insight into how different traders interpret it. So, please let other traders benefit and learn from your plan. You have nothing to fear and the wider trading community has much to gain.