T R A D I N G P L A N P L A N N E R

Trader Information

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Introduction - General Trading Description

The intent of the Trading Plan Planner (TPP) is NOT to provide all the necessary steps and answers for a detailed trading plan. The intent of the TPP is to guide the trader through a logical planning process to create a trading plan that can be refined over time.

Each trader's approach and style will vary according to his/her demeanor. Therefore, each TPP will be different for each trader – customized to meet the needs of the relevant individual. This document is merely a template with guidelines to which you may add, delete, and/or revise any item that will assist you in successful trading.

Use this section as an Introduction to your Trading Plan. Start with listing and explaining the fundamentals of your trading style. The following questions may assist you in doing so.

Make your responses professional, complete, and concise.

1. What style (e.g., scalping, day trading, and position) and type (e.g., long or short) of trading strategies will you be using?

2. What securities and instruments (e.g., futures, stocks, options) will you trade?

3. In what markets (e.g., NASDAQ, NYSE, and FOREX) will you trade?

4. What are the primary "most favorably traded" instruments (e.g., e-mini(s)) that are traded by professionals in these markets?

5. Are there any reasons to be concerned about what markets and instruments you are going to trade (e.g., product expiration, new competing products, etc.)?

6. Will your strategies be automated or will they require you to execute them manually?

Mission Statement

Many traders have a brief mission statement, usually in fifty (50) words or fewer, explaining their reason and passion for pursuing trading and their guiding principles.

If you want to draft a mission statement, this is a good place to put it in your trading plan, followed by trading goals and objectives.

Trading Goals and Objectives

Trading decisions are often made in milliseconds, resulting in both favorable and/or unfavorable outcomes. The impulse of your trading decisions can lead to potential gains or losses and provides a critical foundation for why having clearly defined goals is essential. With changing technology, changing demands on traders, and increased sophistication, trading haphazardly may be viewed as potential trading suicide.

Goals are final outcomes of where you want your trading to be.

Objectives are milestones along the way to achieving your goals.

For example,

1. A *Goal* might be to have consistent and successful trading profits on a monthly basis.
2. *Objectives* might be weekly profit targets and some specific measures of trade success, such as 3 out of 5 profitable trading days per week.

Once you have clearly defined goals and objectives outlining the milestones along the way, you are ready to develop a logical map to assist you with determining your trading strategies. Each strategy you develop needs to include an expectation of risk/reward, trading style, timeframe, and commitment.

Trading Philosophy

A trading philosophy leads a trader down a path of what is fulfilling to him/her about trading. One of the most important requirements successful traders look for is addiction reduction and emotional detachment to having to trade. The following questions may provide some guidance in defining your trading philosophy.

1. What is required for you as a trader to trade in a stress-free and worry-free manner?

2. What is important to you in trading?

3. Are there any tenets that you will follow during your development?

4. Describe your trading style and how it is consistent with your personal demeanor.

5. How will you position yourself to be poised to take advantage of the trading opportunities associated with your trading style?

6. Describe your most important trading strengths and core competencies.

7. What factors will make you succeed at trading? What do you think your major competitive strengths will be? In what areas do you have insufficiencies?

8. What background experience, skills, and strengths do you personally bring to your trading venture?

9. Will you be creating a trading business entity?
   If so, which legal form of ownership:
   Sole proprietor
   Partnership
   Corporation or
   Limited liability Corporation (LLC)

10. Why have you selected this form?

The above questions are some of the questions that you may want to answer and include in this section.

New Traders

The trading plan can consist of a narrative and several potential logical worksheets. The logical trading rules and criteria templates can be the main body of your trading plan. The remainder of this document contains more than 100+ suggestions, examples, and questions divided into several sections. After completing the sections with your trading strategies, revisit the INTRODUCTION - *General Trading Description* section and evaluate your comments. When you are finished writing your first draft, you will have a collection of small essays and detailed trading logic that outlines your trading strategy. At this point, you will want to edit and summarize them into a smooth-flowing checklist for everyday use.

The real value of creating a trading plan is not necessarily having the finished product in hand. Rather, the value lies in the process of researching and thinking about your trading in a systematic and logical way. The act of planning helps you to think your trades through thoroughly, study and research if you are not sure of the setups, and look at your strategies critically. It takes time, but doing so now will avoid costly, perhaps disastrous, losses later.

This trading plan is a generic model suitable for all types of trading styles. However, you should modify it to suit your particular circumstances. Before you begin, review the section titled *Refining the Plan*, found at the end of the document. It suggests emphasizing certain areas depending upon your style of trading (e.g., scalping, swing, and position). It also has tips for fine-tuning your plan to transition to “Trading for a Living”. If this is why you are creating your plan, pay particular attention to your trading strategies. The market is not forgiving.

It typically takes some traders several weeks to several months to complete a good trading plan. Most of that time is spent in research identifying their trade setups and re-thinking their past trades with detailed emphasis on the criteria used for the setups and risk and money management rules. Understand that this is the value of the trading process. Those traders who do so never regret the effort.

If you need assistance with your trading plan, contact Trading EveryDay to set up a complimentary coaching session at www.tradingeveryday.com.

Keep the following items in mind as you use this template and develop your plan:

1. Work through the sections in any order that suits you.
2. Skip any questions that do not apply to your style of trading.
3. Make time to treat your trading as a job and do the job properly.
4. Keep detailed notes on your charting resources of information and on the rules underlying your strategies.

Experienced Traders

Experienced traders know that a key to having consistent trading success is having a good strategy. A good strategy will guide a trader as to when to enter a stock and help him/her determine what risk level is associated with the trade setup. What is equally important is having a good strategy that helps manage the trader's emotions throughout the execution process. The old adage, "Plan the Trade, and then Trade the Plan" is priceless. Hence, revise your trading plan accordingly, using some of the outlined categories below to assist you as you begin to "Trade your Plan".

TRADING STYLES

Discretionary Trading

A significant number of traders rely entirely on their judgment. This approach is good with the caveat that the trader has good decision-making skills. Good decision-making skills are essential for a trader's success, in general, and longevity, in particular. If a trader learns to make timely, well-informed decisions and take well-considered actions, he/she can often enhance the trade setups to lead ultimately to brilliant and well-deserved profitable trades. However, if the trader makes poor decisions without proper risk mitigating tools, the trader risks failure, and his/her tenure as a trader will most likely be brutally short.

Use the following brief descriptions of the various styles of trading to assist you with determining which style is most suitable to your trading demeanor. If you plan on varying from that style, you should clearly and concisely define it in each relevant category how differently each trading style will be used, taking into account the market conditions as a significant component.

Position Trade
A position trade can be characterized as a trade initiated to be an intermediate to long-term trading position. This type of trade is based on a weekly or monthly timeframe and has a potential time horizon as short as a few weeks to as long as several months or more.

Experienced traders learn quickly that it is more efficient to keep their position trades in separate brokerage accounts, in order to mitigate and avoid the potential margin issues involved in holding positions overnight in an active day trading account. Another important advantage to separating the position trades into a separate account is strictly an emotional and psychological benefit. Many active traders find that by keeping long-term positions outside of their active trading accounts, they are less tempted to make spontaneous or irrational short-term decisions on their long-term core positions.

Swing Trade
A swing trade can be characterized as a trade initiated to be a short to intermediate-term trade, typically based on a daily timeframe that has the objective of capturing stock or market swings

lasting between 2 to 5+ days. Most traders define swing trades as a trade position that is intended to be held overnight, and commonly appeal to traders seeking to capitalize on multi-day moves without having to monitor their trades during intraday movements.

Day Trade
A day trade can be viewed as any trade initiated with the intent of closing the position entirely by day's end (e.g., not held overnight). Day trades can be thought of as primarily "intra-day" trades. This style of trading is usually perceived by some as the most aggressive style of trading out of the group.

Scalp
A scalp trade is one in which a trader seeks to capture small to modest-sized profits, based on a smaller intra-day timeframe such as a 2-minute or 5-minute timeframe or on Level 2 direct access activity. Profits in scalps have been found to be best taken quickly, typically on the first meaningful move using momentum to lock in gains. Conversely, "stops" (see "Types of Stops" on page 10) are supposed to be kept extremely tight and many micro traders simply "get out" at the first sign of trouble. Execution knowledge and skills are pre-requisites to employing this very short-term approach.

In Summary
Your style of trading should depend on your trading goals and your level of commitment to learning the nuances of that style. Depending on your goals, you might be looking for quick trades with small profits using very tight stop-loss levels. On the other hand, you might prefer to use more complete information and focus on daily charts, looking for short to intermediate price movements over several days. ***You decide***.

Automated Systems Trading

Experienced traders learn from their mistakes. They realize that without discipline to really follow a detailed trading plan, there are too many events that can lead to account liquidation or blowup. The psychological behaviors of jumping back in after a loss, revenge, the misuse of leverage, the absence of money management techniques, and lax risk management procedures, and many other ills befall the trader who sees opportunity after opportunity. Soon, physical fatigue sets in, then mental fatigue, and in the end trading becomes a vicious circle of what-ifs and could-haves.

Emotions are the true culprit – whether it is the unnatural highs we experience after gains or the remorseful lows we feel after losses. The trader needs to optimize moments of clear-headedness and objectivity to build systems free of the stress of trading. Once the system is built, the trader has to have the discipline to trade it EXACTLY as it was built.

Most automated trading platforms have at least four (4) major components:

Signals
Signals are the events that trigger market entry and exit.

Systems
Systems are signals combined into a suite to form a strategy for trade entry, trade management, and trade exit.

Test Trading
Most trading systems have some level of capability to back test the rules and criteria and formulate the historical results. The more advanced systems also have the ability to run the strategy in a manner with live market data but with no trades being executed.

Live Trading
The system can run in real-time with live market data and execute real-time trades.

RISK MANAGEMENT PLAN

Risk management should be one of the most important tools in a trader's arsenal of trading expertise. The art and science of risk management comes with numerous winning and losing trades. Develop a clear set of rules and criteria on how to use and place stops accordingly in each of your predefined strategies.

Stops are a critical ingredient of a trader's formula for success. In placing stops, it is important to understand your trading philosophy. Doing so will dictate whether or not you will place your stops where the market suggests is a good place to put them or place your stops based on a risk/reward framework associated with your loss tolerance.

You have to determine whether you will physically place your stops in the market or you will keep them mentally. This is very critical in determining how your trading strategy will be executed.

Note:
Stops are not fail-safe. With limited experience, they can potentially create a false sense of security and hinder your attentiveness in diligently watching your position. Another concern a trader should be aware of is that stops can potentially lead to slippage. There is no guarantee that your position will be closed out exactly where you would like it to.

Types of Stops

Fixed Dollar Stops are orders used to limit the specific dollar amount that can be potentially lost on a trade.

Percentage Stops are orders used to limit the percentage of capital allocated to the trade that can potentially be lost.

Timeframe Based Stops are orders that are composed of a time dimension that upon expiration will close out the trading position.

Technical Analysis Based Stops are orders that are derived from some technical measurement that is a derivative of price and volume. These stops are based on a variety of technical techniques that should be reviewed in more depth by a trader to determine if and how they should be used. Some variations of technical stops include ***trailing stops*** and ***breakeven stops*** (see *Overriding Maximum Losses* on page 14) which may be fixed-dollar based, percentage based or timeframe based.

Each trading strategy should have a suite of risk management tools, including stops associated with it based on the trader's style and philosophy.

Share Size Lots

As you already know, there are numerous moving parts in trading. Another major component to successful trading is share size lots. The success of your trading will be directly tied to how you specify and determine the number of shares you will trade. This information can be based on traditional methods for determining share size based on capital or risk allocation methods and NOT emotions:

1. Determine what trading style is being used.
2. Determine the risk capital for each strategy type and the average amount of shares to be traded.
3. Specify how your share size will impact your Risk Management criterion and your Money Management criteria and rules outlined in your trading plan.

By determining your share size methodology, you can allocate different share sizes (lots) to each of your strategies, respectively.

Maximum Loss Limits

In this section, trading habits should be determined such that the traders allow themselves the opportunity to learn their craft. Having pre-determined loss criteria for per trade losses, per week losses, and monthly losses can provide a potential safety net for a trader to regain his/her composure and confidence needed to learn the art and science of trading.

The following expressions are just a simple framework that requires the trader's input to provide some level of assurance to the trader's habits. The trader should change and adapt the following items to reflect his/her trading style.

Trade Limit
For any given trade, the trader will not lose more than $X. If your *last trade losses* are greater than this predetermined amount, then you the trader should determine what course of actions you will take. These actions should probably include terminating the rest of your trading for the trading day. Hence, you will shut down your trading platform FOR THE DAY. The trader should determine how the free time should be utilized. Suggestions might be to re-evaluate the strategy, incorporate any changes if necessary, and paper trades until you are confident that the strategy continues to have a positive expectancy. *Expectancy can be viewed as, over the course of several trades, the likelihood that the outcome from the trade will be a positive gain/profit.*

Weekly Limit
For any given trading week timeframe, the trader will not lose more than $Y. If your *weekly cumulative losses* ***plus*** your *last trade losses* are greater than this predetermined amount, then you the trader should determine what course of actions you will take. These actions should probably include terminating the rest of your trading for the trading day *and* the trading week. Hence, you will shut down your trading platform FOR THE DAY and refrain from trading the REST OF THE WEEK. The trader should determine how the free time should be utilized. Suggestions might be to re-evaluate the strategy, incorporate any changes if necessary, and paper trade until you are confident that the strategy continues to have a positive expectancy.

Monthly Limit
For any given trading month timeframe, the trader will not lose more than $Z. If your *cumulative monthly losses* ***plus*** your *last trade losses* are greater than this predetermined amount, then you the trader should determine what course of actions you will take. These actions should probably include terminating the rest of your trading for the trading day *and* the trading week *and* the remainder of the month. Hence, you will shut down your trading platform FOR THE DAY, FOR THE WEEK, and FOR THE REST OF THE MONTH. The trader should determine how the free time should be utilized. Suggestions might be to re-evaluate the strategy, incorporate any changes if necessary, and paper trades until you are confident that the strategy continues to have a positive expectancy.

Overriding Maximum Losses

By knowing where to place acceptable stops for your trades, one can be proactive in trying to prevent oneself from risking more than one needs to or from being stopped out for some reason. An accumulation of losing trades usually creates a trading mentality that can lead to disastrous outcomes if not managed and monitored properly.

Often, stops are placed too close and will get hit needlessly if they are within the normal volatility of the market. These actions and others usually lead traders to change their risk tolerance midway throughout the trading day, week, or month. This section should outline the rules and criteria to be used if a trader decides to override his/her maximum loss thresholds.

Trailing Stops
Holding on to profits is just as important as cutting losses. To protect your profits, the trader should predetermine what method to use for preserving the profit. One method is to use a trailing stop framework. The trailing stop can be any one of the previously defined stop techniques described earlier. *The important idea here is to preserve your profits.* The focus on trailing stops is that they should be used in most instances when the trade moves ***strongly*** in your favor, hopefully to lock in gains. Each trader needs to determine his/her level of "***strongly***" to reduce the initial risk associated with the trade.

Breakeven Stops
In the markets, there is always the possibility of adverse movements. Once seasoned traders learn to cut the losses, they then sometimes start to realize the necessity for having rules and criteria for when to move these stops as the security moves *in their favor*. This section should include clear rules and criteria for when to move previously pre-determined stops forward so as to eliminate the majority if not all the initial risk in the trade.

Managing Your Trades after Exiting
Equally important, if not just as important, to having detailed trading rules and criteria is record keeping. It is a known fact that proper record keeping is a part of the business of being a successful trader. Tracking the details of each trade after exiting them will assist a trader with determining whether are not their execution of their strategies is a consistent approach.

Each trader should determine what information will be collected during and after each trade. Information such as entry and exit prices, times associated with entry and exit, the setup type, references (i.e., charts, news), potential emotional status or some of the elements that can be used to develop over time, a "Lessons Learned Library", etc.

The information collected can also be used as a part of a trader's market open preparation. For example, the trader can review the previous day's trades to gain insights and patterns of what is working and what is not.

TRADING EXECUTION PLAN

Your Trading Execution Plan should explain the details for executing each trade type including all market conditions, rules and criteria. The following information should provide some food for thought as you develop the plan.

Trading Times

Some traders limit their trading activity to specific timeframes during the trading day. These times, in some cases, coincide with their style of trading.

Specify all criteria you will use for determining what timeframes you will be trading. The trading day may be broken up according to time or categorized by familiar trading events such as market opening, mid-day, and afternoon.

Several authors have suggested using timeframes in various categories. Each trader should define their own trading activity based on his/her availability, trading style, risk tolerance, and other appropriate risk factors.

Trading Multiple Timeframes

After a trader has defined the style of trading, an associated timeframe for set-ups, stops, and targets are usually defined also. There are several philosophies on trading using a "weighting of evidence" approach to gather more detailed insights to assist with the trade.

Several of these approaches entail using multiple timeframes to determine the various components in the trading strategy. These multiple timeframes can lead to additional evidence to help the trader determine things such as the confidence in the trade setup, share size, and risk tolerance to name a few. This section should outline all rules and criteria to be used if multiple timeframes will be a part of the trading strategy criteria.

For example,

Day Trading Timeframes	[timeframe #1, timeframe #2, timeframe #3]
Swing Trading Timeframes	[timeframe #4, timeframe #5, timeframe #6]
Position Trading Timeframes	[timeframe #7, timeframe #8, timeframe #9]

The lowest timeframe, (i.e., #1, #4, #7) might be used to look for the trade entry.

The mid timeframes (i.e., #2, #5, #8) might be used for the trading strategy to provide the signal for entry.

And lastly, the highest timeframes (i.e., #3, #6, #9) might be used to associate the overall directional movement of the security. Each respective timeframe should be defined by the trader to help him/her facilitate the trading style, strategy, risk management, and money management goals.

Trading Style (Day Trading)

Long Entry - Trade Setup Criteria

Bullish Market Conditions will be defined by the following:

Criterion #1 =
Criterion #2 =
Criterion #3 =

Bearish Market Conditions will be defined by the following:

Criterion #4 =
Criterion #5 =
Criterion #6 =

Note that there should be considerable thought in a trader's criterion for executing **Long Entry** positions in a perceived ***Bearish*** market.

Neutral Market Conditions will be defined by the following:

Criterion #7 =
Criterion #8 =
Criterion #9 =

Strategy # 1

If (Condition #1) met and (Condition #2) met then

Entry #0 = Marker Lot
Entry #1 = ½ Lot
Entry #2 = 1/3 Lot
Entry #3 = Whole Lot

Where Market Lot = X shares/contracts and Lot = Y shares/contracts

If (Condition #4) or (Condition #5) met then

Stand on Sideline

Note: *There should be times when the trader's strategy meets his criteria for entry but additional conditions warrant the trader "standing to the side" and skipping the trade. An example for " standing to the side" might be that after defining a range-bound market that requires significant experience and patience, the trader decides to wait for the trend to re-emerge.*

Short Entry - Trade Setup Criteria

Bullish Market Conditions will be defined by the following:

Criterion #1 =
Criterion #2 =
Criterion #3 =

Note that there should be considerable thought in a trader's criterion for executing **Short Entry** positions in a perceived ***Bullish*** market.

Bearish Market Conditions will be defined by the following:

Criterion #4 =
Criterion #5 =
Criterion #6 =

Neutral Market Conditions will be defined by the following:

Criterion #7 =
Criterion #8 =
Criterion #9 =

Strategy # 2

If (Condition #1) met and (Condition #2) met then

Entry #0 = Marker Lot
Entry #1 = ½ Lot
Entry #2 = 1/3 Lot
Entry #3 = Whole Lot

Where Market Lot = X shares/contracts and Lot = Y shares/contracts

If (Condition #4) or (Condition #5) met then

Stand on Sideline

Note: *There should be times when the trader's strategy meets his criteria for entry but additional conditions warrant the trader standing to the side and skipping the trade.*

Trading Style (Swing Trading)

Long Entry - Trade Setup Criteria

Bullish Market Conditions will be defined by the following:

Criterion #1 =
Criterion #2 =
Criterion #3 =

Bearish Market Conditions will be defined by the following:

Criterion #4 =
Criterion #5 =
Criterion #6 =

Note that there should be considerable thought in a trader's criterion for executing **Long Entry** positions in a perceived ***Bearish*** market.

Neutral Market Conditions will be defined by the following:

Criterion #7 =
Criterion #8 =
Criterion #9 =

Strategy # 3

If (Condition #1) met and (Condition #2) met then

Entry #0 = Marker Lot
Entry #1 = ½ Lot
Entry #2 = 1/3 Lot
Entry #3 = Whole Lot

Where Market Lot = X shares/contracts and Lot = Y shares/contracts

If (Condition #4) or (Condition #5) met then

Stand on Sideline

Note: *There should be times when the trader's strategy meets his/her criteria for entry but additional conditions warrant the trader standing to the side and skipping the trade.*

Short Entry - Trade Setup Criteria

Bullish Market Conditions will be defined by the following:

Criterion #1 =
Criterion #2 =
Criterion #3 =

Note that there should be considerable thought in a trader's criterion for taking **Short Entry** positions in a perceived ***Bullish*** market.

Bearish Market Conditions will be defined by the following:

Criterion #4 =
Criterion #5 =
Criterion #6 =

Neutral Market Conditions will be defined by the following:

Criterion #7 =
Criterion #8 =
Criterion #9 =

Strategy # 4

If (Condition #1) met and (Condition #2) met then

Entry #0 = Marker Lot
Entry #1 = ½ Lot
Entry #2 = 1/3 Lot
Entry #3 = Whole Lot

Where Market Lot = X shares/contracts and Lot = Y shares/contracts

If (Condition #4) or (Condition #5) met then

Stand on Sideline

Note: *There should be times when the trader's strategy meets his criteria for entry but additional conditions warrant the trader standing to the side and skipping the trade.*

Trading Style (Position Trading)

Long Entry - Trade Setup Criteria

Bullish Market Conditions will be defined by the following:

Criterion #1 =
Criterion #2 =
Criterion #3 =

Bearish Market Conditions will be defined by the following:

Criterion #4 =
Criterion #5 =
Criterion #6 =

Note that there should be considerable thought in a trader's criterion for executing **Long Entry** positions in a perceived ***Bearish*** market.

Neutral Market Conditions will be defined by the following:

Criterion #7 =
Criterion #8 =
Criterion #9 =

Strategy # 5

If (Condition #1) met and (Condition #2) met then

Entry #0 = Marker Lot
Entry #1 = ½ Lot
Entry #2 = 1/3 Lot
Entry #3 = Whole Lot

Where Market Lot = X shares/contracts and Lot = Y shares/contracts

If (Condition #4) or (Condition #5) met then

Stand on Sideline

Note: *There should be times when the trader's strategy meets his criteria for entry but additional conditions warrant the trader standing to the side and skipping the trade.*

Short Entry - Trade Setup Criteria

Bullish Market Conditions will be defined by the following:

Criterion #1 =
Criterion #2 =
Criterion #3 =

Note that there should be considerable thought in a trader's criterion for executing ***Short Entry*** positions in a perceived ***Bullish*** market.

Bearish Market Conditions will be defined by the following:

Criterion #4 =
Criterion #5 =
Criterion #6 =

Neutral Market Conditions will be defined by the following:

Criterion #7 =
Criterion #8 =
Criterion #9 =

Strategy # 6

If (Condition #1) met and (Condition #2) met then

Entry #0 = Marker Lot
Entry #1 = ½ Lot
Entry #2 = 1/3 Lot
Entry #3 = Whole Lot

Where Market Lot = X shares/contracts and Lot = Y shares/contracts

If (Condition #4) or (Condition #5) met then

Stand on Sideline

Note: *There should be times when the trader's strategy meets his criteria for entry but additional conditions warrant the trader standing to the side and skipping the trade.*

Managing Your Trades after Entry

This section should outline the questions traders might want to ask after they have executed the entry for their strategy. Additional insights and information such as support, resistance, and/or stops can be mis-judged during the entry process; hence, this area provides the opportunity to revisit the trading criteria used for the trade.

Once a trade starts to move in your favor, consider defining clear objectives of how you can use *breakeven stops* and *percentage stops* to give back only *some* but NOT *all* of your profits. Note that some traders have a philosophy where if the trade is setup properly, then they can patiently wait for either their stop or target to be hit - giving the trade time to perform.

Adding to Current Positions Criteria

Based on the quality of the trade setup, some traders may use a "*scale- in"* approach. A "scale-in" approach allows traders to build potentially into a position and get on board early to catch a larger part of the move. If a scale-in approach is considered, this section should outline the criteria for determining what rules and criteria will be used to either add or not add to an existing position.

If (Condition #1 met) and (Condition #2 met), then *add* X *additional* shares/contracts to current position.

Be careful to develop criteria for this section. Successful traders know that you should add to winning trades and NOT add to losing trades. Some traders develop a habit of using a dollar cost averaging approach in the incorrect direction (adding shares/contracts at lower price to a losing position).

Share Size Reduction Criteria

Every veteran trader has had at least one tough experience with a losing streak. The unfortunate reality is that this happens not only to veteran traders but all traders. Without strict risk and money management rules, a severe losing streak can lead to financial ruin on a trader's account. The challenging aspect of the losing streak is the trader's psychological make up. Can the trader sustain and live to trade another day?

The following section is designed to assist with mitigating some of the trading behaviors and tendencies that a losing streak creates in a trader's mindset. The trader has to be disciplined enough to separate his/her emotions, ego, and behaviors while focusing on what there is to learn from the trading experiences one is observing.

If during a *trading day*, the trader experiences ***X losing trades in a row,*** he/she will initiate and take some action to reduce the size of future trades. Some actions might include ***reducing*** the number of shares you trade by zz% until you have **Y *winning trades*** in a row.

If during a *trading day*, the trader experiences ***X+Y losing trades in a row,*** he/she will initiate and take some action to reduce the size of future trades even more. Some actions might include ***reducing*** the number of shares you trade by ***an additional*** zzz% until you have **Y *winning trades*** in a row.

If during a *trading week*, the trader experiences ***U losing days in a row;*** he/she will initiate and take some action to reduce the size of future trades. Some actions might include ***reducing*** the number of shares you trade by vv% until you have **W *winning days*** in a row.

If during the *trading week*, the trader experiences ***U+V losing days in a row;*** he/she will initiate and take some action to reduce the size of future trades even more. Some actions might include ***reducing*** the number of shares you trade by ***an additional*** vvv% until you have **W *winning days*** in a row.

MONEY MANAGEMENT PLAN

Preserving Trading Capital

Every trader's success depends on his/her ability to keep the total $ amount of the losing trades smaller than the total $ amount of the winning trades. Learning to take losses can be a psychological battle for new traders. The real goal in money management is quite simple. Every trader will have a bad trade, a losing streak, a bad day, and so on. ***Learning to mitigate the risk in each of these situations will allow the trader to come back and trade another day.***

Focusing on the ***share size reduction section*** is just one of the many risk management tools needed to succeed. Remember, you can no longer trade when your trading capital is depleted.

Again, focusing on the ***share size reduction section*** is just one of the many risk management tools needed to succeed. Remember, you can no longer trade when your trading capital is depleted.

(The repetitiveness above is not an error! It is to make a serious point.)

Revisit each of your strategies and determine whether they have low risk levels or need to be adjusted accordingly. Using a philosophy of losing the least possible will preserve your trading capital much further than a trader can imagine.

As a trader, determine how much you are willing and able to lose.

Understand that trading is about risk, and risk is about capital exposure. Know in advance how much each trade will risk. Then, in aggregate, know how much exposure you are willing to risk on all trades. Using these parameters, ensure your share size criteria are aligned to mitigate any unforeseen risk.

Trading Profits

It will seem unusual that this section will be written in such a short manner. There is very little need to focus on developing complicated criteria, rules, or strategies for your profits. Trading profits are hard to come by.

Develop a simple set of rules that govern your taking profits early in trades. When a trade reaches your target, simply exit and move on!

Use a clear set of technical analysis techniques to determine how to obtain consistent, modest profits and not focus on hitting the big one.

Trading Expenses

New Traders:

You will have many trading expenses before you even begin trading in the market. It is important to estimate these expenses accurately and then to plan where you will get sufficient capital.

This is a research project, and the more thorough your research efforts, the less chance that you will leave out important expenses or underestimate them. Even with the best of research, however, pursuing trading has a way of costing more than you anticipate.

There are two ways to make allowances for surprise expenses. The first is to add a little "padding" to each item in the budget. The problem with that approach, however, is that it destroys the accuracy of your carefully wrought plan. The second approach is to add a separate line item, called contingencies, to account for the unforeseeable.

Talk to other traders who have started with similar circumstances to get a good idea of how much to allow for contingencies.

Experienced Traders:

You already realize that there are significant ongoing monthly trading expenses as you pursue trading in the market. It is important to manage these expenses accurately and then to plan whether these expenses will come from your existing trading capital, profits, or ***extra funds*** you have already set aside for your trading expenses.

Talk to other experienced traders who have been trading for some extended period of time to get a good idea of how much and how long to allow for contingencies.

This section can include an expense section outlining all the one-time and recurring expenses you will apply towards your trading. Expenses should include but not be limited to items such as seminars, coaching, quote data, charting software, internet connections, computer hardware, productivity software, accounting software, business entity expenses, tax preparation expenses, newsletters, trading rooms, travel related expenses. ***Consult with a professional tax advisor for your tax situation accordingly.***

TRADING DIARY and RECORD KEEPING

It is important to carefully track the performance of each of your trade types. As you may notice that certain trade types are no longer working well, you will be in a good position to adjust the style to the market conditions because the markets are always very dynamic.

This section should outline all the necessary steps required for your record keeping of trading activity. Comments on items such as how new types of trades will be initiated with minimal share size and precise records keeping are essential for a test and learn approach.

Upon the closing of each trading day, you may want to complete your equity curve data in order to track your performance. Performance measures are critical for your progress, development, and improvement if they are accurately measured and reviewed.

TRADING PERFORMANCE REVIEW

As mentioned in the beginning, having a trading plan is vital to a trader's potential success. Other ingredients are how and when you will review the details of each trade executed to determine what went right or wrong.

This section should outline all the steps to be taken to review the performance of a trader's execution history. Each trade should be reviewed with some criteria similar to the following:

1. Measure and understand how often your trading strategies are profitable (i.e. a batting average).

2. Measure and understand the magnitude of winning trades to losing trades (i.e. a win loss ratio).

3. Understand the frequency at which your trading strategies are generating signals for you to execute trades.

4. Review your share-size and lots used in your trade setups.

Additionally, the following actions will enable you to review each trade in even more detail.

1. Create a distribution of winning trades and a distribution of losing trades to see where, on average, your profits and your losses are.
2. Understand your largest winning trades and largest losing trades and what, in your strategies, is driving them.
3. Measure your drawdown for each trade and its impact. These results can also provide insights to the volatility of your results (i.e., extremes and outliers).
4. Create a list of *distinct categories* for your *errors* and map all your trades into one of the categories. Use this to help identify what areas need immediate attention to improve your trading while other areas may need less attention.

Other considerations for review can be how often your trades reached the target or stop. How often did you follow your trading plan, how often did you deviate from it. Are your emotions attached to your trades?

TRADING LESSONS LEARNED

We have reached the point in your trading plan where you now have to put all the pieces together to review and decipher the findings. Over time, this section summarizes the various lessons a trader will learn from all of his/her executed trades.

This section should include lessons from both winning and losing trades.

Examples include:

In bullish markets, you should be focusing on long positions. THE TREND IS YOUR FRIEND.

Limit your losses by using stops.

Place a stop at the same time you execute the trade.

Designate and commit to a specific time period each day for studying the markets after hours.

Never cancel a stop loss order without fully understanding your reasons for doing so.

Adding to losing trades usually leads to more losses.

Etc.

DISASTER AND RECOVERY PLAN

As with any business, it is critical to have continuity and a planned process in the event of a serious incident. Backups of critical processes, data, hardware, software applications, programs, etc. should be defined and tested on a regular basis to ensure a successful transition if the need arises to use them.

This section should reference how and what contingency procedures will be used.

The duplication of these events may seem like additional expenses, but when the time warrants it, it is well worth it. Trust me! You do not want to have to rebuild if you do not have to! Always have a contingency in place.

APPENDICES

Include details of all resources used in your trading plan, such as the following examples:

- Magazine and other articles
- Seminar Notes
- Charts
- Library of Book Titles and Authors
- Newsletters articles
- Trading Room Notes
- Coaching and/or Mentorship materials
- Trading Psychology and Self-Development materials
- Any other materials needed to support your plan

REFINING YOUR TRADING PLAN

The generic trading plan presented above should be modified to suit your specific type of trading style for which the plan is written. Be mindful of the following tips as you customize your plan for your future success.

1. Treat your trading as a business.
    a. Learn to become more selective in the quality and quantity of trades you execute as a trader.
    b. Overtrading is one of the biggest traps that a trader can find him or herself in and requires significant discipline to overcome.
    c. Use your performance to determine when and how often you should trade.

2. Review your trades to determine what works and what does not work.
    a. Make the necessary changes once you determine what does not work.
    b. Initially, learn to use your strategies to find a very selective subset of strategies (or one) on which you can focus and concentrate.
    c. Review your performance measurements and trading statistics to determine where your strategies need improvement.

3. Continue to set reasonable trading goals.
    a. Monitor and eliminate the need to trade for excitement and the anxiety of missing trade setups that lead to big moves.

4. Tackle the easy problems first by using your trading strategies *distinctive list* of errors.
    a. Your distinctive list of errors should provide numerous areas of improvement that allow you to refine your trading plan for many years to come.