

Developing an Annual Trading Plan

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Developing an Annual Trading Plan

- Part I: Daily Pre-Market Checklist
- Part II: Trader Psychology

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- **Part I: Daily Pre-Market Checklist**

My 2005 Business Plan

1. Why am I trading again in 2005?

- Potential Financial Rewards
- Freedom to work from anywhere
- Freedom to choose who I want to work with
- Freedom to dictate my own schedule
- Continuing mental growth and new challenges
- Would miss it if I stopped

2006 Business Plan

2. Markets to Trade

- CBOT mini-Sized Dow
- CBOT US 30 Year T-Bonds
- CBOT US 10 Year T-Notes
- CME E-mini S&P
- CBOT Electronic Gold Futures
- Various Currency Pairs via Forex

Why These Markets?

- CBOT mini-Sized Dow (YM): First choice for intraday trading. Setups to use are Pivots, Gaps, and Squeezes. This contract offers a better spread than the other mini contracts, and it is very easy to get a handle on the Dow by watching the 30 stocks on an auto sorting list.

Why These Markets?

- CME E-mini S&Ps (ES): Intraday plays use Tick Fade and Moving Average Crossovers. Also use for swing plays.
- CBOT US 30 Year T-Bonds (US): Doldrums play
- CBOT 10 US Year T-Notes (TY): Squeeze plays, pivot plays.
- CBOT Electronic Full Sized Gold (ZG) / mini-sized Gold (YG): Squeeze plays, box plays
- Forex: Box Plays, Squeeze Plays

3. Profit Protection

- Withdrawal 50% of profits at the end of each quarter.
- Why? This is the best way to protect profits.
- This is also a reminder that the numbers on the screen are real and represent real cash.
- Never add money to your account or meet margin calls. “Feeding the Beast.”
- Ok to add money to a positive % account.

4. Number of Contracts to Trade

- Conservative: 1 lot per \$50,000
- Moderate: 1 lot per \$25,000
- Aggressive: 1 lot per \$10,000
- Super Aggressive: 1 lot per \$5,000

5. Drawdowns: Rules & Regulations

- If you are down 12% for the month, cut position size in half for the rest of the month.
- If you are down 16% for the month, stop trading for the rest of the month.
- If you hit a 30% total drawdown, it is time to take a 4 week break from trading.
- Maximum overnight exposure is 1/3 lot size.

6. Profits: Rules & Regulations (per \$100,000)

- After winning days and losing days, focus on making an average of \$500 per day. \$500 per day = \$120,000 per year, or +120%. Slow and steady wins the race.
- T, W, TH are your best trading days, focus on making \$1,000 on these days.
- If you are up over \$2500 before 12 noon, stop trading for the day.
- If you made over 10% for the week, take Monday off.
- If you are up 20% for the month, take the rest of the month off.
- Track daily profit & loss on a spreadsheet

7. Rating Your Performance

- Write down the trades in a journal as you take them. Track results of each trade.
- Note if you followed the parameters or changed them while you were in the play. If so, why?
- The results of each trade will add up to the total P&L for the day.
- Any trade you take that is not listed label as an “impulse play” which is your weakness. Track its performance.

8. Tracking Your Daily Ups & Downs

- You get in trouble when you are doing well, then you go for that “bigger plate at the buffet.”
- Keep track of the days where you let greed get the best of you, then work on reducing the number of those days.

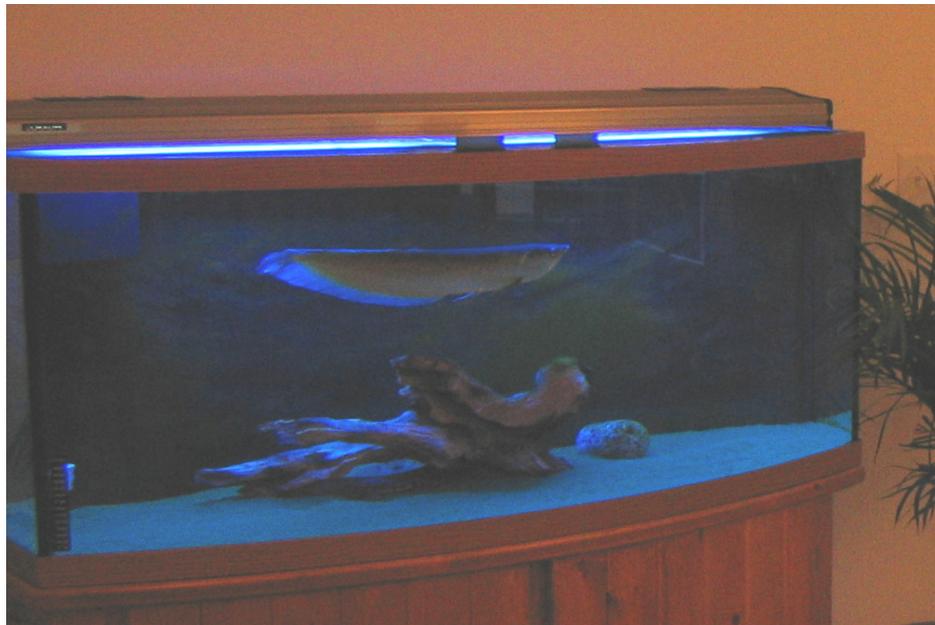
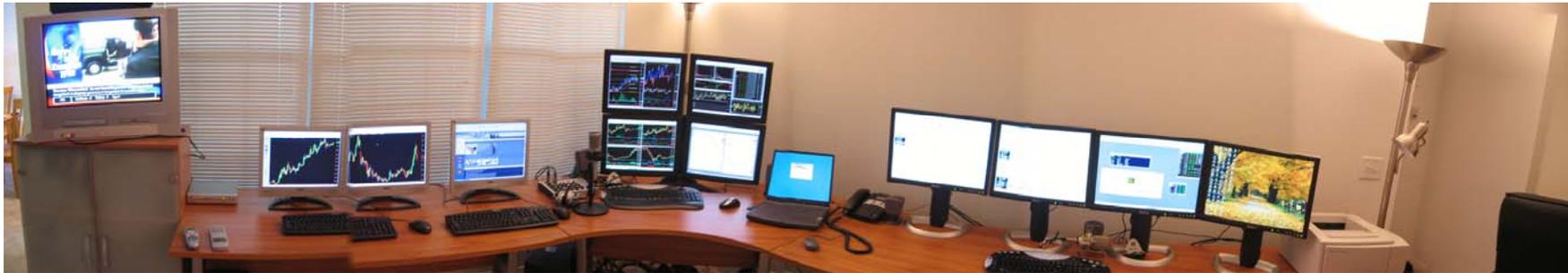
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← Feed Large Predator
Fish, Martha, Each
Morning To Get in
the Right Frame of
Mind For Trading

Rewards for Performance

- When you hit 60% for the year, take the next 4 weeks off.
- Take 2 weeks in Europe, 1 week in Bahamas
- Upgrade home theatre system
- Buy more land

Peak Performance

- When you have a 10% week, go do something to tame your Euphoria by taking Monday off and doing something that humbles you such as golf, flying a plane, workout with black belts in Tai Kwon Do, etc.
- Leave the markets between 12 PM and 2 PM Eastern and take a mental break.

Peak Performance

- Quit trading after 12 Noon on Fridays.
- Trade lighter during the last 3 days of options expiration. Consider not trading at all during this time.
- Focus heavily on the first two trading weeks of the month. Then take a 3 day weekend to get away and recharge.
- If you reach \$2500 per 100K by 12 Noon, continue to trade until you have a losing trade.

Peak Performance

- Take off the entire week of Thanksgiving.
- Take off the last two weeks of the year.
- Do something physical at least 4 times a week and 6 is better. Tai-Kwon Do, Cardio, Weights, Core Strength Training, Waterskiing, Jogging, etc. The more the better.
- Traders and Vices don't do well together: Watch intakes of caffeine, alcohol, etc.
- Stay healthy with good eating habits and vitamins

Trader Psychology & Trading Business Plan

- Part II: Trader Psychology

Psychology: Rewire Your Brain

- Emotion is the enemy of successful trading. The markets are set up to naturally take advantage of and prey on human nature.
- The tactics you use to achieve your goals in everyday life do not work in trading, and in fact are one of the main reasons for failure.
- Traders who “play the markets” with a mental framework oriented towards how external society rewards and punishes “good” and “bad” behavior are set up to lose.
- “Making money good, losing money bad.”

- This “society focus” on money instills the very habits that cause traders to lose money.
- For example, “Cutting losses short” is difficult when there is the possibility of the market coming back to the breakeven point.
- At breakeven, you are not a “loser.” **HOWEVER**, removing a stop in the hopes of getting out at breakeven is a **LOSING HABIT** in trading.
- The rest of the world views losing as a bad thing. This is true in many parts of your life. If you bring this same mindset to trading, you will never win. In trading, small losses are awesome!

- After losing consistently in the beginning, traders start making trades based on a fear of losing money, fear of being wrong, or fear of missing an opportunity. This “start of phase II” also does not work.
- By focusing on not losing, you will naturally take small profits, and let losers run in the hopes that they come back to breakeven.
- At this point traders realize trading isn’t easy. They then go on the search for “The Holy Grail.” That is the “fail safe indicator” that never generates a losing trade.

- After “Fear of Losing” both Greed and Euphoria are a trader’s worst enemies. Fear of missing a move also causes mistakes. (Jumping in too late).
- \$500 a day is very reasonable. But, when you then go for \$750 or \$1000, greed takes over and mistakes kick in: overtrading, not sticking to parameters, rampant emotions, yelling at screen.
- “Home Run” mentality is the downfall of all losing traders. This is where you refuse to take a \$500 profit because you “want a bigger trade.” This is how winning trades turn into losing trades.
- Market is an all you can eat buffet: no reason to overload your plate on 1 trip; you can keep going back

- Euphoria is worse than Greed.
- You had a great day yesterday, so today you are over confident and you throw out your trading rules.
- Things are going great – so double up! Triple up! Keep adding to your position!
- This is like betting it all on each roll of the roulette wheel. You can win 10 times in a row, but it only takes one loss to devastate your account.
- This will only end in one way:
- Badly: Develop a business plan and stick to it!

- Set up your parameters before placing the trade
- Before the trade you are at your most objective
- After the trade is in place, you can talk yourself into anything
- Successful traders have a habit of ringing the register. Get in and start scaling out.
- Overly bullish or bearish a bad idea: Do not try to impose your will on the market.
- Discipline before Vision: know your exits

- Professional traders focus on limiting risk and protecting capital. Amateur traders focus on how much money they can make on each trade. Professionals always take money away from amateurs.
- Amateur traders turn into professional traders once they stop looking for the “next great technical indicator” and start controlling their risk on each trade.

- Embracing your opinion leads to losses.
- When a trader rationalizes a decline by saying things like, “They are just shaking out weak hands here,” or “I’m staying in because it’s just the market makers fishing for stops,” then trader is embracing his own opinion instead of listening to the market.
- This is also called “being an amateur” and leads to a one-way revolving door called financial ruin.

- Professional traders actively take small losses, and they do so because they know their most important job is protecting their capital.
- Amateurs resort to hope to save their trades.
- In life, hope is a powerful and positive thing.
- In trading, hanging onto a trade based on hope is very similar to staying inside a burning car in the “hope” that the fire will go out. The end result won’t be pretty.

- In reality, traders are not trading stocks, futures or options.
- They are trading other traders.
- Be aware of the psychology and emotions behind the person who is taking the opposite side of your trade.

- The most important lesson of becoming a successful trader is learning how to accept a loss without any frustration, anger or shame.
- The key is to have two specific sets of rules: Trading Methodology Rules and Money Management Rules.
- By following the rules, you learn to trust yourself. Once you trust yourself, you can then focus on the market's opportunities (instead of focusing on trying to not lose money).

- Focus on developing your skills instead of focusing on the money.
- The markets move endlessly, with zero regard to you. They are not “after you.”
- Traders become consistently profitable once they learn self-discipline, emotional control, and the ability to submit their will to that of the market.
- The less you care about being right or wrong, the easier it will be to enter and exit positions, to take losses, and be ready for the next opportunity.

Developing an Annual Trading Plan

Summary –

- Every successful traders should have a trading business plan.
- Make trading psychology, knowing how your emotions are a part of your trading, a part of the plan.

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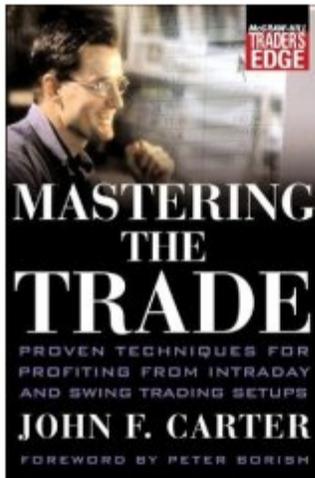
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Current Positions Futures Portfolio:

Qty	L/S	Contract	Paid	Entry Date	Close	1 st Target	2 nd Target	Stop	Exit Date	Points	\$+/-
3	L	ES(Mar)	1256.50	12/30	1265.00	1265.00	1273.50	1248.50	01/03	8.50	1275
3	L	ES(Mar)	1256.50	12/30	1273.50	1265.00	1273.50	1248.50	01/03	17.00	2550
3	L	YM(Mar)	10755	12/30	10874	10874	11000	10698	01/03	119.00	1785
3	L	YM(Mar)	10755	12/30	11000	10874	11000	10848	01/06	245.00	3675

Current Futures Portfolio Commentary:

On Tuesday we picked up YM and NQ long near the open. The stock indexes went on to finish near their opening levels, and then after the close YHOO and INTC disappointed and the indexes sold off after hours. This action is driving the indexes to their 21 EMAs and in the case of the Dow to its 50 EMA. I actually like this as a potential buying opportunity and will continue to bid long for ER. NQ and YM are going to be in trouble in the morning and may be stopped – but I will be watching the indexes intraday to see if they can hold these key levels for any re entries should the need occur.

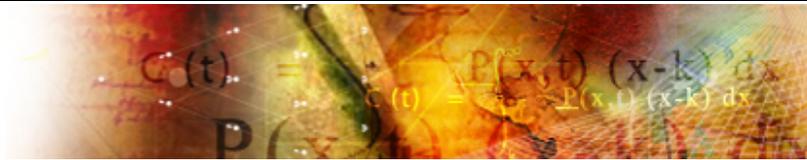
CHANGES ON STOPS AND TARGETS (marked in orange above): No Changes.

Current New Orders for Futures Portfolio:

Qty	L/S	Symbol	Current	Order Entry	1 st Target	2 nd Target	Stop
6	L	ZG (Feb)	555.40	535.50	555.50	585.00	517.50
6	L	ER (Mar)	703.20	697.20	710.00	716.80	687.20

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