

My Trading Plan

Introduction

Every great trader tells you that you need a trading plan to be a successful trader.

A trading plan ensures you have a strategy and set of rules to follow. But far more importantly, the ATO says there are a number of factors to consider in working out whether you are carrying on a business as a share or derivatives trader. One of these factors is a trading plan that shows you have a set of rules, that you follow a system and that you don't speculate or gamble. This is a key aspect of carrying on a business and ensuring you can claim your expenses as a tax deduction.

The ATO has a number of criteria to look at in deciding whether or not you are carrying on business as a trader. These are:

- The size of trades
- The size of your trading account
- Frequency and repetition of your trading
- Whether you have a system to trade, or gamble randomly
- Whether you have a written trading plan
- Whether you have a structure
- Whether you use software, subscribe to trading journals, your level of self-education, etc.

As a trader, you can claim all the expenses associated with your trading. See the "Tax Intelligent Trader", a book attached as a guide.

A trading plan is your blueprint to success. It should include your objectives, procedures, and most of all, your trading system. You follow it on a disciplined level for success, and also, it ensures that the ATO see you as a legitimate business.

A trading plan includes your entry and exit signals, your risk management, money management, whether or not you are day trading, medium term trading or long term investing, among other things. It should include your lifestyle goals from trading, the amount of money you want to make, the reason you are trading (income, fun or excitement), the amount of time you will spend, your ongoing self education plan, psychological training and maintenance, the amount of capital you wish to allocate to your trading plan, etc.

You want to be specific in your trading plan, and describe your entry and exit points in detail. Your trading will then become mechanical, cutting out emotions.

A sample trading plan is given below.

My Trading Plan

_____ (Your Name)

_____ (Business)

Overview

Write out an overview as to what prompted you to do a trading plan in the first place.

EXAMPLE

I have written this trading plan because I am serious about running my trading as a business. This plan keeps me focused in my trading and in achieving my goals, and ensures I stick to the rules that I have set up for myself. I know that my strengths and interest lies in trading commodities, and in particular, intra-day scalps of the S&P futures. I am less interested in long term trading. Since shifting to this strategy, I feel calmer and more in control.

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My Higher Mission and Purpose

You have to link your trading with a higher purpose or reason. Many traders cap or sabotage their success because they don't have clear goals and a purpose, and also, because they don't have a higher purpose beyond themselves that inspires them. All of us know inherently that life is more than making money and living only for ourselves. And once we have a higher purpose, that brings tears to the eyes, we start to move forward with more passion and purpose, and are far more likely to attract success and abundance. Many people trade because they are driven by money or the need to survive, and this is not a good reason to trade. In fact, you will often sabotage yourself because if you are emotionally disconnected from your higher purpose, trading can become an emotional fix. All successful traders are universal in saying that making money in trading is boring, mechanical and systematic, and often anything but exciting.

EXAMPLE

"My mission and purpose is to educate youth, and bring them to a place of financial freedom where they can live their dreams without being restricted by money and societal constraints.

By trading the markets, I can achieve this dream by:

- 1. Generating a sufficient income to cover my daily living expenses so I can put more time and focus into creating educational programs that help youth, and in developing a marketing plan to target these programs into the schools.*
- 2. Knowing that I am unlimited in my income earning potential, as my potential entirely depends on the size of my trading account, eg. if I make 3% per month on \$20,000, I am making \$600 per*

- month, \$6,000 per month if my trading account is \$200,000 and \$60,000 per month if my trading account is \$2 million.
3. Ultimately, funding the establishment of an educational centre to teach youth spiritual laws that are not taught in the schools to give an alternative way of living for youth, so they can learn to create their own lives of enrichment and abundance.

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Why I Want to be a Trader

Why do you want to be a trader? That is, you have a higher purpose in life, but why trading? Sure, you want to make money, but why did you choose trading? Is it for excitement? Or is to make money using a stable proven method? Or is it solely about money, when really, your talents are more suited to something else, e.g. owning a franchise?

EXAMPLE

I want to be a trader because I enjoy the discipline and challenge of sticking to a system, knowing that the rewards are well worth it. My primary objective in wanting to be a trader is to generate an income of \$150,000 per annum minimum to sustain my family, and allow me to go on holidays once a year. My secondary objective is to spend more time with my family and ultimately, as my profits increase, enjoy the freedom of being able to trade from anywhere in the world. These objectives are important to me because they enable me to free up my time, to work from home around my family, which I love doing, and ultimately, give me a more balanced life. I know that the boredom and routine of following a strict trading system will be more than counterbalanced by the exciting opportunities. I will get to experience more of life.

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What Kind of a Trader Am I?

You want to know what kind of a trader you are. That is, do you love routine and disciplined systems? Do you prefer to trade long-term (i.e. months), medium-term (i.e. weeks) or short-term (i.e. days or intraday)? How much time do you have available? Do you prefer to check daily or weekly, or spend hours a day on the computer? If you trade intraday, do you prefer trading at nights or during the day? You want to be clear, and really know.

EXAMPLE

I don't naturally like routine and discipline, and like flexibility. My trading style is aggressive, and I like to keep moving, so I prefer to trade intraday, however, I do like to have a long term strategy also to build a capital base. I understand that I cannot predict the future and that I cannot control the markets. However, I can control myself, which I will do by adhering strictly to my trading plan that I have detailed below.

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'Know Thyself'

Professional traders will tell you that the key to success in the markets lies in understanding your own psychology. Your emotions come under siege when you start trading. You will soon find yourself experiencing euphoria when winning (greed) and knotted anxiety in your stomach when losing (fear). Professional traders, on the other hand, remain detached, regardless of whether they are winning or losing. I have heard it said that they 'achieve a trading nirvana, where 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'.

To be like this, it is critical that you know yourself and how you will react to winning and losing positions. Be deeply honest with yourself regarding your deepest fears. Once you know this, your trading plan can include the positive aspects of who you are, identify the negative aspects, and outline a clear risk management plan to deal with it. You also need to keep in mind whether you are trading for a living or for supplementary income, because a person relying on trading for a living has to have strong emotional discipline.

EXAMPLE

QN 1. What are my strengths as a trader?

I am very determined, and I never give up on anything that I start, even with major setbacks.

I can ride my profits very easily, and only close out on exit signals.

I have military background, so I am used to a highly disciplined environment.

QN 2. What are my weaknesses as a trader?

I can be stubborn and bull headed and not always cut my losses.

I easily become impatient, and want to recoup losses really quickly. I become desperate and panicky when I have made losses, and find it difficult to stop thinking about them.

Every now and again, I need rushes of adrenalin and excitement, and I tend to break out and do something outrageous. I am very likely to put on an outrageously risky trade just for the excitement of it, and see if I can hit that glorious jackpot.

I will control my weaknesses by:

I will trade as if it is someone else's money, and not my own.

I will only intraday trade when I am rested, relaxed and not distracted with my work and family, so where possible, I will trade at nights where I have the least amount of distractions and the main New York market is open.

I will not trade when I am feeling sick or very tired.

I have a pre-defined daily stop. If it is hit, I stop trading for the day.

If I make 3 losses in a row, I stop trading immediately and go back to paper trading until I make 3 wins in a row.

I have a mentor/coach who I report to weekly.

I trade with small amounts initially, and I only increase my trading capital bit by bit.

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Paper Trading

(Only include this section if you have not started trading yet, and want to do paper trading.)

When you are starting out as a trader, paper trading is a great way to begin. It helps you learn your system and master it before you have to go into the big world of trading and helps you master your emotions when you trade with real money.

EXAMPLE

I will be paper trading for 3 months on a hypothetical trading capital of \$20,000. If after 3 months, I am consistently making money, and meeting my goals, I will commence trading live with a trading capital of \$20,000. If not, I will continue to paper trade on a month by month basis until I am ready to start trading. I will know when I'm ready because I have paid for mentoring with Terry's Trading, and I will run my results past my designated mentor first.

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What are my Trading Goals?

Setting short term, intermediate and long term goals for trading or otherwise helps keep you focused and identifies where you are headed. Set realistic goals, e.g. don't set a goal of turning \$10,000 into \$100,000 in 6 months because your chances of success are not high, and you will only be disappointed if you don't achieve this goal. Know how much money you wish to make from trading, how much money you intend to start with, and how you will add to the account, and know if it is only a supplementary income, or your main source of income.

EXAMPLE

It is my desire to make a full time living from trading. To do this, I require a minimum income of \$2,000 per week to support my wife, 3 children, and pay my mortgage. However, I ultimately want to earn \$3,000 per week plus so I can build up savings, go on holidays, and eventually, buy a beautiful villa in Tuscany, and start to build an investment property portfolio.

Paper Trading: As per above, I am paper trading on a trading capital of \$20,000. This is for 3 months or until my trading mentor clears me to start trading, whichever happens sooner.

Starting Capital: Once I have finished paper trading, I will start with a trading capital of \$20,000.

Aim: As per above, to replace my income from my work so I can work from home and spend more time with my family, and eventually, to build capital to start my grand investment plan.

My financial objectives are divided into three parts - Short Term, Medium Term and Long Term.

Short Term

To make an income of \$1,200 per month, based on a 6% per month return. To do this, I need to earn 3 futures points per week per contract.

Intermediate Term

Once I have consistently proven my ability to generate income live over at least 3 months, I will increase my trading capital to \$100,000. I will be aiming to make 12% per month from intraday trading. I estimate within 18 months, I will have enough trading capital, and consistent returns to have replaced my income and quit my work.

Long Term

To consistently make \$30,000 per month (using a \$300,000 portfolio), and save \$10,000 per month of that money for future investments.

You can add more detail than this, and probably should, but this gives you a basic idea.

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Markets

You want to work out which market you wish to trade, and why you are choosing that market. Most professional traders restrict their focus to a limited number of markets and instruments, whereas, novices tend to trade eminis one day, FOREX the next and commodities the day after!

EXAMPLE

The instruments that I will trade are eminis for intraday trading, in the evening from 10pm to 3am. I specifically will focus on the SPI, and on gold. I will also do long term trading on U.S. stocks using charts and fundamentals, and I will specifically focus on any share that meets my list of criteria, which is specified below in this trading plan.

Broker, Systems, Hardware and Software

Choosing the right broker, and the best trading platform for you, are critical to your performance, just as Jonny Wilkinson's rugby boots are critical to achieving excellence. Work out which broker is going to do it for you, and the software you are going to use.

Broker

Consider the following when choosing your broker:

1. What you are trading, i.e. stocks, commodities, FOREX, etc?
2. Their commissions
3. What you get in support and customer service from the broker
4. Size of your account
5. Your experience, e.g. in options trading you are limited in writing naked calls or puts with certain brokers if you lack experience
6. The platform you are using

EXAMPLE

As I am new to options trading, my choice of broker is Options Xpress. They provide competitive commissions, and have all the stocks and options available that I require, and they have won numerous industry awards for the quality of their trading platform and customer service.

Software & Data Feeds

You want to ensure you choose the best charting software if your trading decisions are based upon technical analysis (T.A.). You want to ensure your data provider and charting platform has the features you want but is not charging you for fancy gizmos that you do not need. Specify exactly what chartering software and data provider you wish to use.

EXAMPLE

My choice of software is Metasoft software, and SlowQuote data feed, because this gives me the charting software that has all the features I need for my strategy, and real time data.

Trading Strategy

Getting your trading strategy and specifying the rules by which you trade are critical. You need to work out things such as:

- Specific strategies that will be traded, i.e. for various markets, for trending, non-trending markets, sideways, when staying out of the market
- Whether day or medium term or long term trader
- Days that will be traded
- Holidays
- Risk management, i.e. % per trade
- Entry signal
- Exit strategy and signals
- Stop losses
- Risk reward
- Probability of success for trades in the trading strategy (E.g. One of my clients had only 30% success on his trades but made huge profits because he cut his losses.)
- Profit taking strategy, i.e. in part, all in one hit etc.
- Losing trades, and what you do with losing trades
- Strategies after market closes or before market opens

EXAMPLE

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.

The entry point 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).*

I will find the entry points that I require by using the bespoke stock scanning software from CleverClogs.com. The criterion for each scan is defined by the characteristics of each trading strategy.

I read the New York business newspaper every single day.

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.

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.

The entry point 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 . . .*
- 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.

I will find the entry points that I require by using the bespoke stock scanning software from CleverClogs.com. The criterion for each scan is defined by the characteristics of each trading strategy.

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.

FURTHER EXAMPLE

I am trading eminis, the SPI, and I am using 5 minute charts.

If there is no put option on the covered call and the underlying stock goes below the original purchase price, I will exit the trade when the stock reaches the strike price of the written call. I will not let it go below the strike price hoping it goes up again.

I will write the call option deep in-the-money.

I will aim for a return of 5% - 15% per trade.

My maximum risk per trade as a general guide will be 5% of the account.

However, as a more specific guideline: A \$5,000 account = 50 – 60%, \$10,000 account = 8%, \$20,000 – \$40,000 account = 5%, \$100,000 account = 3.5%.

Risk and Money Management

This is the crux of everything. If you don't apply sound risk and money management principles, this will almost certainly ruin you.

To be clear as to the difference, 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. while money management 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 cut your losses short (i.e. risk management) and let your profits run (i.e. money management).

You also need to understand your attitude towards risk, e.g. 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

You need to define market risk.

You need to define your level of risk, i.e. the maximum amount of capital that you will put at risk at any one time. Be prepared for the worst, i.e. market crashes.

EXAMPLE

I will not risk more than 1% on any one trade, with a maximum exposure on all open positions of 5% in total.

You need to define Sector Risk

For example, putting all your trades on oil futures is leaving you highly exposed, e.g. if terrorists blow up an oil refinery, or bad news is reported. Diversification of sectors is the name of the game. One way to control sector risk is to limit the number of positions in any one sector.

EXAMPLE

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

You need to define your 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?

EXAMPLE

My main broker is Trade4Ever. In extreme circumstances when my main broker is down, I have hedged my positions with JoeBloggsBrokers.

If my PC crashes, or my internet service provider (ISP) is down, I have a back up laptop with a USB internet connection with another carrier 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.

You need to define the Strategy Risk. That is, the markets are constantly changing and a strategy that was profitable last month / year may not be profitable next month / year. 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!

EXAMPLE

I will monitor the drawdown on all my trading strategies. In the event that this figure exceeds 20%, I will stop trading that strategy immediately and review the whole approach.

You need to know your risk per trade. If you can predict market direction 99% of the time, if you risk 100% of your equity on every trade, eventually, you WILL lose everything! Many traders will not risk more than 1% of their total equity on any one trade.

EXAMPLE

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%.

You need to know when you stop trading. Knowing when to stop trading is both good discipline and good risk management. It helps to prevent chasing losses on losing days and helps to prevent greed from rearing its ugly head on winning days.

EXAMPLE

- 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, as per my plan.*

You must also have a strategy for adding to trading capital.

EXAMPLE

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 start trading again until I have worked out the cause of the drawdown and have re-tested the strategy to ensure that it meets my profit objectives.

You also want your profit-taking strategy.

EXAMPLE

I will use a trailing stop which I will position 20 points below the lower high in an uptrend or y points above a higher low in a downtrend.

Education and Development

Every trader needs to continue with his or her professional development as a trader, and take regular courses, and lessons, and networking with experienced traders, to keep abreast of market developments, and learn the newest and best trading techniques.

You want to work out the kind of courses and education you are undertaking, who is mentoring or keeping you accountable, and set a clear budget for education.

EXAMPLE

I have undergone the Metastock School of Training to learn how to trade stocks.

For ongoing learning, I continue to do regular courses with the Metastock School of Training, and I have signed up for a 12 month membership.

My Golden Rules of Trading

You need rules that are meaningful to you and that you can fall back on as an anchor. Here are some examples of rules:

1. PROTECT & PRESERVE YOUR CAPITAL!

Don't just think about how much money you are going to make. Be aware of what you can lose, and ensure that you have strategies to keep your losses to the absolute minimum.

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'.

3. CUT THE LOSSES SHORT – LET THE PROFITS RUN! AND STAY WITH THE TREND!

Cutting the losses short is achieved by always having a stop loss! Additionally, I always ask myself 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 I exit immediately. I don't have to wait for my stop to be triggered before exiting a trade! Letting the profits run is money management and an excellent exit strategy.

4. TRADE WHAT I SEE – NOT WHAT I THINK!

Egos and trading do not mix. The little voice inside my head that tells me what the market is going to do next needs to be gagged whilst trading. Whilst I am listening to this voice, I am not paying attention to what the market is revealing to me. Look at the information on the charts and trade what I see, not what I think.

5. NEVER CHASE LOSSES. EVER!

After a losing trade it is important 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. Do this and I run the very real risk of a blow-up. 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 me, I get out fast.

7. KEEP EXCELLENT RECORDS!

Strategically, it is essential to keep records of my trades. Not just the profit and loss, but also the reasons why I did what I did when I did.

8. MAINTAIN DISCIPLINE!

Keeping excellent records will help me see at a glance how disciplined I am in my trading.

9. KEEP IT SIMPLE!

I will make it easy on myself and keep my trading rules as simple as possible with the fewest possible indicators needed.

10. PLAN THE TRADE – TRADE THE PLAN!

Trading is not gambling; it is a business. However, if I enter the markets without a well-conceived, detailed and tested trading plan, I may as well be a gambler.

Reference Material

Write out the reference material that you use for your trading.

EXAMPLE

Trading Institute's and Mentor Education's Share Trading Options

Summary

Write out a summary conclusion of your long term goals.

EXAMPLE

I am still in the early stages of trading; however, my plan is to become a trader for a living. I see that it will take me 2 years of practice, and I will continue to work in my employment as a qualified engineer until I am making my target income.