TRADE SCHOOL:
Ten Steps to Building a Winning Trading Plan

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Jan 7, 2011
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Author and Contributor to:
- Barron’s Online
- Dow Jones Business News
- CBS MarketWatch
- Reuters
- Trade2Win.com
Why Put Together a Trading Plan?

- Trading is a Business
  - Would you start a business without a plan?
  - If you fail to plan, you plan to fail.

- Identifies Your Strengths and Weaknesses
  - Market knowledge
  - Trading system / Mechanics
  - Emotional fortitude / Discipline

- Trading Plan is NOT
  - Reading a bunch of market trading books
  - Opening a brokerage account
  - Buying a charting program
Building the Perfect Master Plan

#1 Skill Assessment

- Successful paper trading is a must (30 to 60 profitable trades)
  - Successful paper trading is no guarantee of real-market success. Emotions are different.
- Build confidence in your trading system
- Build expertise with the trading platform
- Automatic execution without hesitation
  - Entry & Exit
- High probability trading
  - ‘Trading in the Zone’ by Mark Douglas
#2 Mental Preparation
- Be well rested and clear minded
- Get ready to do battle
  - Daily actions (Favorite chair, Wife/Hubby out of house, Dog is walked, etc.)
- Do not trade when:
  - Angry
  - Hung-over
  - Preoccupied / Distracted

#3 Set a risk level
- Portfolio risk per day? (1% to 5% max)
- Example:
  - $10,000 portfolio => Daily risk: 1% = $100, 5% = $500
#4 Set Goals
- Realistic profit limits per trade
- Minimum reward/risk requirement
  - No less than 2:1
  - Push for 3:1 or better opportunities
- Set Target profits & Review
  - Daily
  - Weekly
  - Monthly

#5 Do Your Homework
- World market conditions before the open
  - Overseas markets up/down?
  - Index futures up/down
  - Economic market moving data pending for the day?
  - Earnings data due out?
  - Post in highly ‘visible’ area
#6 Get System Ready to Trade
- Re-boot computer at the start of each day
- Label major and minor support/resistance levels
- Set visual & audio alerts for entry/exit signals
- Comfortable trading environment
  - Free of distractions

#7 Set Exit Rules
- Set a stop and DON’T move it
  - Keep the losses small!
- If your stop gets hit that means you were wrong
  - Don’t take it personal
  - Get over it
  - Professional traders lose more trades than they win
  - Be profitable by managing risk and keeping lose
- Exit rules are more important than Entry rules
#7 More Exit Rules
- Two Exit rules needed for each trade
  - Exit on stop loss
    - Do NOT scale out
  - Exit on profit(s)
    - Full exit
    - Scaling exit w/stop loss adjustment
- Stop Trading when daily loss limit is reached

#8 Set Entry Rules
- Much less important than Exit Rules
- Entry rules based on trading methodology
  - Complicated enough to be effective
  - Simple enough to allow for snap decisions
#9 Keep Excellent Records
- Track winning and losing trades
  - You can learn from your winning trades and losing trades
  - Track things such as:
    - Entry & Exit targets
    - Actual entry & exits
    - Support / Resistance levels
    - Daily opening range (minimum first 15 minutes)
    - Daily Open & Close
    - Comments on why trade was entered & exited
    - Lessons learned

#10 Perform Post-Mortem
- At the end of every day
  - Review why and how of each trade
  - Write conclusions in trading journal
- At the end of every week
  - Review trading journal entries
  - Enter weekly conclusion into journal