

Trading Plan Review

Both winning and losing trades teach us important lessons. Losing trades often provide the greatest opportunities for personal growth as traders. As an aerobics instructor of mine once yelled in the middle of a class: “That which does not kill us, strengthens us”.

Over time, a robust trading system will produce greater profits than losses. A good trade is made when you follow your trading plan to the letter regardless of a profit or loss result. It is a sign of a disciplined trader. If you are having trouble developing your own system, I suggest that you plagiarise the ideas of other traders/authors who you relate to. After you have tried out their concepts, you can make alterations to suit your situation. Duplicate before you innovate.

Years ago during my university days, I was told of a study into Harvard business graduates. The study was designed to establish which are the common factors that lead graduates to ultimately succeed financially. Interestingly, twenty or so years after their degrees, 5% of the graduates were earning 95% of the total money earned by all graduates. It was the same 5% that had written down their goals and dreams all those years ago. The maintenance of a written life plan somehow helped these graduates to attain their goals. Some even carried their personal mission statements in their wallets.

Do you want to be in the top 5% of investors? Quick – grab a pen and paper and get writing. Print out this Trading Plan Review and fill it in, before you make another trade. It is absolutely essential! Take heart from the words of Warren Buffett: “To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What’s needed is a sound framework for making decisions and the ability to keep emotions from corroding that framework”. A trading plan can provide you with the framework that you need to succeed in the sharemarket.

Keep a Trading Diary

If we all had a personal trading coach, I’m sure that we would detect our own flaws and strengths, and improve our strategies with an overwhelming speed. Because trading is largely a solitary occupation, you will need to be responsible for your own trading development. Achieving objectivity is a difficult prospect. You will accomplish trading excellence by regularly analysing your own strengths and weaknesses.

My key to maintaining objectivity is to keep a trading diary. I keep an A4 ring binder, and assign one page to each share that I buy. All of the most successful traders have some form of recording their trading history. Before entering a trade, I record all of my thoughts and analysis. Unless I can justify my trade on paper, I will not enter the position. Imagine that you were trying to convince another person, who is incredibly skeptical about shares, to buy the share that you are suggesting. If you could win such an argument, go ahead and buy the share.

It is essential to keep your records in date order and to separate your completed transactions for each trading month. After each trade has been completed, write down your profit, your loss, the amount of time that you held the share and the main lessons that you have learned. After making a profit or a loss I record: What did I do well? What would I do differently if I repeated this trade?

Unfortunately, some traders must go through some sort of catastrophe to finally get their own attention, and make an effort to improve their system. Psychologists call this 'one-trial learning'. The one experience is so excruciatingly devastating it results in an instant change in behaviour - painful, yet effective. A quick wack to the side of the head can sometimes be the best thing to ever happen to you, as long as your head doesn't get completely knocked off in the process. By following the guidelines set out by The Trading Game and in the books written by Chris Tate and Louise Bedford, it is unlikely that you will need to go through such an experience in order to learn how to trade effectively.

Your Trading Plan

Suppose you were planning to purchase a business that had the potential to create an unsurpassed life-style for you and your family. Would you spend some time discovering the critical components necessary for success? Of course you would. You'd also work your tail off to develop a business plan that would set you up for the future.

The sharemarket has the potential to change your lifestyle forever. It's up to you to lay out a road-map that will take you from where you are now, to where you want to be. That's where a trading plan will assist.

You will derive the most benefit if you spend at least half a day considering the issues described below. The time that you invest in considering all of these possibilities will set you apart from the majority of traders.

- 1) Clearly write out your objectives. Are you trading for wealth creation, income, or for fun? Your objectives should be as specific as possible. Exactly what are you hoping to achieve?

- 2) What are your psychological strengths and weaknesses in relation to trading? What steps are you taking to overcome your weaknesses and maximise your strengths?

- 3) What structure will you trade under eg partnership, trust, company etc? If you are uncertain, visit your accountant or tax agent to ensure that you are setting up with the best structure for your own individual situation.

- 4) How much time per day/per week will you devote to trading? How many distractions do you face while you are trading? Is there any way to overcome these distractions?

- 5) What size of percentage returns are you expecting per annum? This will have an impact on the types of markets that you trade. For example, if you are expecting a 60% average return on investment, then it is likely that you will need to investigate derivatives or futures. A 20% return would be more suited to trading shares.

- 6) How much capital do you have to devote to your trading system? Will you use one trading system only, or several?

- 7) Which markets will you focus on eg futures, managed funds, equities, warrants or options? Will you trade Australian shares, or overseas markets? How will you allocate capital between these areas?

8) If you experience a consecutive string of losses, how will you react? What percentage of your initial capital can you tolerate losing before you will stop trading temporarily /permanently?

9) What procedures will you follow on a day-to-day basis, week-to-week basis etc to search for opportunities, monitor your existing positions, and review your performance?

10) Over what time frame will you trade, eg intra-day, daily, weekly? How long do you envisage holding each position? If you are already trading, how long is your average hold time? Does this fit in with your psychological profile and goals?

11) What percentage of your capital are you willing to risk on each trade? When, if ever, will you alter this percentage?

12) How will you determine how much money to commit to each position? When will you increase your position size?

13) How will you set your initial stop, your breakeven stop and your trailing stops?

14) When will you move from your initial stop, to breakeven, and subsequently to a trailing stop?

15) What are your entry triggers?

16) How will you keep a record of your transactions?

17) How will you measure your performance? How often will you review your existing portfolio? How will you know when you have done well or poorly?

18) How will you define/handle a windfall profit?

19) What will you do with your open positions when you go on holidays?

20) How do you plan to deduct money from your trading account eg salary? When will this be conducted? How will this affect your position sizing etc?

The questions outlined here are designed to get you thinking in the right direction. You may find that they raise other questions you will need to address.

Your trading plan should be reviewed on a frequent basis to ensure that your system is in line with your current objectives. Short-term traders should review this process every month. If you are a medium-term or longer-term trader, every 3 – 6 months should suffice.

Once you have considered all of the issues outlined, there are four components that you need to record in your trading diary, prior to entering a new position:

- Entry Requirements
- Stop Loss procedures
- Profit Taking Methodology
- Position Sizing
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It is essential that your plan blends in with your lifestyle and personality and it is impossible for me to be fully versed in your own private situation. No two traders, and therefore trading plans, are the same. This is your blueprint for success – no one else's. If there is any area listed here that you require further assistance with, The Trading Game can help. For information on the seminars and workshops offered by The Trading Game, please go to <http://www.tradinggame.com.au/seminars>.

Louise Bedford compiled the Trading Plan Review. Louise is a full-time private trader and author of *The Secret of Writing Options*. and *The Secret of Candlestick Charting*.

This is an extract from her new book *Trading Secrets*.