BUILDING A TRADING PLAN

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10 steps to building your own Trading Plan

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Trading Plan Step 1 - It's All About You

Some of you might think the questions in this step are a bit corny but, having gone through this process, it's amazing how much you will learn about yourself and your approach to the market if you start writing things down.

When I did it, many years ago, I found that my answers took me in a different direction than I thought they would and helped me to clarify my purpose and how I was going to get to where I wanted to go.

I invite you to come on the journey with me. Over the next 10 steps, hopefully you will end up with a stack of papers with questions and answer which form the basis of **your** trading plan.

Question 1 – Why do you want to be a trader?

This question is designed to help you pinpoint your true reasons engaging in trading, i.e., it's unlikely it's just about the money. By pinpointing these reasons, you will be better prepared to answer the questions that come later regarding risk tolerance, etc. You should be able to complete all of the sentences below;

- I want to be a trader because...
- My number one goal in becoming a trader is...
- My secondary goal(s) in becoming a trader are...
- These goals are important to me because...
- I believe I can fulfil these goals by...

Question 2 – What sort of trader do you want to be?

There are many types of trading and, therefore, trader. If you are not familiar with some of the terms listed below, then that's probably a pretty good sign that you still have plenty of research to do. What type of trader you want to be will largely be determined by the amount of time you are able to devote to trading? For example, you will not be a day trader if you spend 9-5 working away from a computer (unless you plan on trading US markets at night and never sleeping). Generally speaking, day traders will spend all day glued to the computer screen, watching their positions, whilst position traders may only devote a very small amount of time each day to the markets.

- I will be a position/swing/trend trader...
- I will be a discretionary/systematic trader...

My style is aggressive (which means I will likely be an intraday trader) or conservative (which means I will likely be an end of day swing trader)

Question 3 – What are your strengths and weaknesses?

Here you should list each of your character traits (both good and bad) and divide them into what you think are strengths and weaknesses. Try to think outside the box when constructing this list and look to your previous life experiences and background for clues. Are you a conservative driver who doesn't like driving fast? Are you a thrill-seeker who likes to act on impulse? Are you super organised at work, almost to the point of being obsessive-compulsive?

If you think about it, all of the traits I just mentioned could be perceived and both strengths and weaknesses. When thinking about the traits, think about how they might affect your decision making, risk profile, organisation, etc. If you are still struggling, try paper-trading for a while to see how you will react in certain situations. Patterns will begin to emerge which will help you to identify your strengths and weaknesses.

- My most valuable strength is...
- How do I think this strength will help in my trading?
- My biggest weakness is...
- How do I think this weakness will impact my trading?

Question 4 – Do you have the right mindset to be trading?

This is really a two-part question. The first part involves your general situation. Are you currently at a point in your life where your situation is conducive to trading? Trading can be quite stressful in and of itself, so it should not be lumped in with other significant stresses in your life. Is everything OK at home? Have you recently lost your job? Does someone close to you have a serious illness? Are you always worried about your kids? Trading requires a significant degree of mental strength so if you are currently faced with any of these or similar issues, maybe it's best to put your trading career off for a while.

The market isn't going anywhere and you can come back to it at any time. The second part of the question concerns the specific instances when you are going to be trading. Have you slept well the night before? Are you fit and healthy and mentally alert, or, have you been out boozing all night and have a headache? Remember, trading requires focus and mental strength.

- I will only trade when...
- I will not trade when...

Trading Plan Step 2 - Set Some Goals

Step 2 is about actually taking some time to think about what you want to achieve in the market. I think it's fairly critical. How on earth are you going to decide what you are going to do without having a goal in mind? That would be like getting in the car to go on holiday, without a destination. You would find yourself driving aimlessly. Don't do it. Don't trade aimlessly. Precision in your plan is as important as precision in your entry and exit signals. Set goals. Make them realistic and, as I have said before, 'making money' is not a goal. It's a given. If you're not doing this to make money, go play golf.

Question 1 – What are your trading goals?

This is often confused with your financial goals, as in, how much money you want to make. Trading goals are different in that they concern your development as a trader. Your trading goals should provide you with something tangible to work towards, a way to track your progress, and motivation when you are facing challenges. If you set appropriate trading goals, your financial goals will come that much more easily. Once you have defined your goals, then decide how you will reward yourself once you achieve them.

- My yearly/monthly/weekly trading goal is... a lot of people get stuck in this area so I have provided some examples below
- My weekly trading goal is to stick to my plan and be disciplined
- My monthly trading goal is to review my performance more regularly in order to spot any problems as they occur and make the necessary adjustments
- My monthly trading goal is to strictly adhere to my new stop loss strategy, in order to test its effectiveness
- My yearly trading goal is to develop my 'edge' by seeking further coaching from experienced traders, refining my trading plan and refining my strategies to ensure they remain tradable and market sensitive

If I achieve these goals, regardless of the financial outcome, I will reward myself by...

Question 2 - How much money are you aiming to make?

Many new traders never ask themselves this question before they begin trading, let alone answer it. We all want to make money but the response 'as much as possible' is not a sufficient answer to this question. This comes back to your expectations. You need to know what it is you are chasing after before you go chasing after it. Be realistic. Don't expect that you are going to turn $10,000 into $1 million overnight. The average return for the ASX over the past 30 years is about 9.5%. Your goal might be to match that return (although you could get that result simply by sticking your money in a low-cost index fund) or to better it by a certain percentage, i.e., ASX annual return (9.5%) plus 5%.

- I will aim to return x% in a 12-month period
- I will aim to return x% each month
- I will aim to return x% each week
- If I achieve my goals, it will provide me with a yearly, monthly, weekly income of x.
- If I achieve my goals, I will reward myself financially by...

Don't forget to reward yourselves guys. You can't take it with you and trading and investing can be hard.

Trading Plan Step 3 - What Will You Trade and Over What Timeframe?

Figuring out what to trade is an important step in your Trading Plan. What you trade should fit in with your lifestyle, your ability to access a computer (don't trade on your phone, please), and to conduct research. In my experience, trying to trade everything means you will be like Jack... a master of none. Limit your trading world but know it, with intent.

Question 1 – Which markets will you trade?

This seems pretty straightforward but there are some guidelines you should follow. If you previously have some experience with a certain stock/sector/market, then consider starting with what you know. Most people have some familiarity with equities (often longer-term investing) so this would be the logical place to start. Try to limit the number and type of markets you trade when you first start out. Expert traders are usually extremely well versed in limited fields, i.e., equities - top 20/50/100/300, certain sectors (maybe the industry that you work in), commodities, foreign exchange (FX), etc, rather than knowing a little about a lot. Finally, lend some thought to the practicality of trading certain markets. Equities will not be suitable for someone who cannot trade whilst at work; those people would be better served by trading international markets which open up after their local market is closed and when they are home.

- The instruments that I will trade are...
- I will trade these instruments because...liquidity/volatility/tight spreads/low commissions/they fit with my schedule
- If I trade Australian equities, I will focus solely on the Top 300 ASX stocks/mining/banking/mid-caps/blue chips
- If I trade FX, I will only focus on x number of currency pairs

Question 2 – Which timeframes will you trade?

Hopefully, by now you have lent some serious thought to what type of trader you want to be; intraday, swing, position, trend. Now you need to focus on the appropriate

timeframes for your particular choice. Timeframes are often difficult to nail down but think about it in terms of how long you anticipate holding your position. A day trader, for example, is not going to be looking at weekly or monthly charts. They are going to be looking at 1-5 minute charts and perhaps half hourly charts to determine the broader trend.

- As an intraday/swing/trend/position trader I will use a 1-, 5-, 10-, 30-minute, 1-, 2-, 4-hour, daily, weekly, monthly chart
- To get a read on the broader trend, I will also consider x higher timeframe

Trading Plan Step 4 - Your Weapons of Choice

This is an elementary but still important part of your trading plan. A quick search of our Facebook discussion group shows that many traders (and investors) are concerned with the tools they are using to get the job done.

Just as you wouldn't want your surgeon using a butter knife, don't use substandard tools in your approach to the market, whether it be the instruments you are trading or the platforms/software you are using to trade them. Also, pay attention to costs. This is supremely important in trading. If you are making a lot of trades, paying an extra 0.1% will add up to a big number over the course of a year (this is something I have covered previously in my article 'Overtrading – Don't Do It'). Bottom line… get your tools right and make sure you know what they can and can't do ahead of time. It won't help you figuring out the limitations of your platform during a market meltdown!

Question 1 - What financial instruments will you use?

Most people will choose to deal with equities but traders should not ignore the fact that there may be more instruments at their disposal such as options, warrants and CFDs. Some of these instruments may be more flexible than equities but must be treated with the respect that they deserve. Anytime you add leverage, you add risk, and my humble observation is that leverage is not for newbies… or even for more experienced traders without a well-defined plan. Whatever you decide upon, make sure that you have fully researched all the pitfalls and possibilities of using a certain type of instrument and make sure that it fits in with what you are trying to achieve.

- I will trade in equities/options/warrants/CFDs because... they give me flexibility/I understand the risks fully/suit my trading timeframes/are most cost effective
- I will trade through x because they are the cheapest/have the best coverage of the instruments I want to trade/have an excellent charting package/have the best customer service and support

Question 2 – What analysis tools will you use?

Once you have decided on an instrument type, you are going to need a way to analyse those instruments/stocks/bonds/commodities/FX, etc. Most of the time the charting package provided by your broker/trading platform will not be sufficient enough to conduct detailed analysis (i.e., market scans), particularly if your decision making is based primarily on technical analysis. If your trading strategy (not the same as your plan) also considers fundamental metrics, you will need a reliable source for that as well. Ultimately, you will need to decide upon some analysis software, as well as the necessary data feed for the instruments you are going to focus on.

- If my decision making is based primarily on technical analysis, I will use Metastock/AmiBroker/Esignal, etc to conduct my analysis and data from Reuters/Norgate, etc
- If I am considering fundamental factors, I will read the AFR, Bloomberg, MarketWatch, broker reports, watch Ausbiz (only when Henry and Chris are on), CBNC, etc
- If I want the best of both worlds, I will simply read Marcus Today 😊

Trading Plan Step 5 - The Plan Within the Plan

Things really start to ramp up from here. In the coming steps, we will be talking about:

- Money Management,
- Entry and Exit Strategies,
- Trade Setups,
- Trading Discipline and,
- The Golden Rules of Trading

All the juicy stuff.

Please be mindful however, that whilst I will talk about the need for an Entry and Exit Strategy and can pose questions to get you thinking about your strategy, I won't be outlining fully developed strategies. That is not the purpose of this exercise – otherwise I would just give you my trading plan and be done with it. No, this is to get you thinking about the fact that you need to ponder these elements and come up with answers if you are going to have a robust Trading Plan.

Just as I can't tell you how much you would be comfortable risking on a trade (although I can pose questions and give examples to help you get to your answer), I can't tell you exactly which trading strategy will be the one that works for you (although I can pose questions and give examples to help you get to your answer). With that said, let's plough ahead.

Question 1 – What is your trading routine?

Each and every time you engage with the market, you should have a checklist or process that you stick to; a routine if you will. This will ensure that you are adequately prepared for the trading period ahead. This process, just like the broader trading plan, is designed to ensure that when the time comes to trade, the probability of success is on your side.

- My trading routine involves...analysing my previous trades/reviewing my open positions and updating any target and stops/assessing today's market/planning the potential trades ahead/executing those trades
- It should be noted that I believe any good trader will include all of the elements listed above in their routine, i.e., they are not negotiable. As such, I have provided an explanation of each point

Analysing previous trades

Analysing your previous trades is one of the most important elements in improving your trading skills. If you are a discretionary trader it will help you to determine what is working and what isn't and whether or not you are adhering to your plan. If you are a mechanical/system trader, reviewing the trades will help you make adjustments to your system. It is also a very good idea to keep a trading journal. This will allow you to analyse patterns in your trading. If you find in your notes that you are constantly taking profits too early, you can recognise this and make the appropriate adjustments.

Reviewing open positions

When reviewing your open positions (if you are not a day trader) you should always check to make sure that the original conditions for entering the trade are still valid.

Provided they are, you should then check to see if you need to update your stop loss and/or target levels.

Analysing the general market conditions

Are there any major news stories impacting the market? Before trading you should always check finance and news websites such as Bloomberg and Reuters to see what the major headlines are. It is also a good idea to check the futures markets and whether there are any important economic announcements scheduled.

Planning for the upcoming session

Just as you must have a broad plan for engaging with the market, you should also have a plan for each time you engage with the market. I.e., what are you doing, hour by hour, each day? It could look something like this (just examples, nobody's daily plan is likely to be so busy)…

- 9:00 am – Fire up the PC, check existing positions, adjust stops if necessary, download data
- 9.15 am – read overnight reports from US, assess general market conditions – am leads bullish or bearish? Am I likely to be buying/selling/doing nothing?
- 9.30 am – Run scans on entire market. Shortlist interesting setups. Put them on a watchlist
- 10:00 am – Market open. Watch setups, observe action. Exit any trades near targets or stops
- 10:05 am – Retracement strategy – are the any stocks which have popped/dropped on the open which could provide good retracement trades?
- 10:30 am – Keep an eye out for 10:30 am swing in market. Are there any stocks breaking out that could provide good buying opportunities?

And so on….

Bottom line, if you do not follow a plan every time you engage with the market, the chances are you will simply drift. This will result in missed opportunities, frustration, and the worst sin of all - departing from your trading plan. It could also lead to boredom trades. Yes, that's a thing. Let's not pretend it doesn't happen.

By providing yourself with a structure for dealing with the market you will ensure you maintain discipline, focus and efficiency. Most traders I know are very passionate about trading but, like any other job, they would prefer to be spending as little time as possible in order to get the best possible outcome. The way to do that is through efficiency. Efficiency is a by-product of good planning.

Trading Plan Step 6 - Capital Management

Without this section of your trading plan, the rest of it is next to useless.

This area of your plan defines how you are going to apply your capital (your hard-earned money) to the market. Capital management can be broken down into two categories: Risk Management and Money Management. If you do not apply appropriate risk and money management principles in your trading, you will not be successful in the long-term. It's just that simple. Let me provide you with a very crude but equally profound example; if you risk all of your money on every trade you take, you will eventually lose all of your money.

Even if 999 trades in a row are winners and they make money, the 1000th trade that you get wrong, will wipe you out. Risk management involves considering market conditions, probabilities, the risk-reward profile of each trade you take and the use and placement of stop losses. Conversely, money management involves the use of trailing stops and adjusting your position size. I like to think of the two elements as defence (risk management) and attack (money management).

One of the best axioms in trading is 'cut your losses' – risk management - and 'let your profits run' – money management. In this article I will cover Risk Management whilst in the next article I will take a look at Money Management.

Question 1 – Do you like/dislike risk?

Once again, you need to think about who you are as an individual but in this case apply it to your money. You can think about risk in terms of time in the market. The longer you are in the market, the greater the chance that something will go wrong. A trader's goal is to identify setups, within their preferred trading style, that are least likely to get derailed by unforeseen and unpredictable circumstances. How do you safeguard against the unpredictable, you ask?

You look for repeatable and measurable patterns, and you bet on them occurring again and again and again. It follows that the trading style that keeps you in the market the longest, might also be the riskiest.

- In terms of risk, I am risk averse/tolerant/hungry
- I will achieve this risk profile by strictly adhering to the risk management conditions within my trading plan

Question 2 – What is my risk size and my overall market risk?

I have written about determining your risk per trade – your risk size - at length, in the following article: Capital Management - Risk Sizing. The long and short of it is, plan for the worst. Assume you could experience a losing streak of 10 trades in a row. If you are risking 5% on each trade and you cop 10 losers in a row, you've just torched 50% of your account. Chances are, you are not taking trade number 11. Also, be mindful of how much risk you have in the market at any one time… i.e., if you have five trades open, risking 2% on each and they are all long positions, if the market crashes then you're likely to lose 10%. Not great but not the end of the world.

- My risk size on each trade will be…
- My overall market risk will be no more than x% at any one time

Question 3 – What is my sector risk?

Watch the market for long enough and you're bound to see a sector or theme blow up. Buy Now Pay Later (BNPL) is all the rage right now, but what happens if revenue don't support the valuations, or people realise that there are too many players for not enough clients – much like the telco space of the last 10 years. Well, the music will stop and the sector might collapse. So, just as you wouldn't risk 100% of your capital on one stock, don't overcommit to a sector or theme.

- My maximum exposure to any one sector/theme will be no more than x%

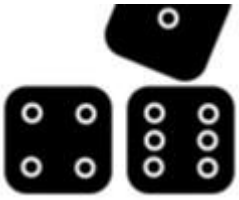
Question 4 – What is my strategy risk?

Not all strategies work in all market conditions. Trend trading won't work when markets are going sideways. During periods of extreme volatility, it's likely that very few strategies will be effective over the entire period of volatility. If you are a system trader who has back tested data, you need to be mindful of curve fitting and the awful but very real possibility of 'system death'. Not everything will work forever. As the market changes, so too will your trading strategy need to change and adapt. No one ever 'wins' the market. The game will go on forever (I think that's why I am so attracted to it) and you can always get better. To keep tabs on the effectiveness of your strategy, simply measure your largest % drawdown and then multiply it by a factor of 1.5-2x. If the

drawdown ever exceeds that number, STOP TRADING and review your strategy. It's likely you will need to make some changes. At the very least, don't resume trading the strategy with real money until the drawdown moves back within the acceptable range.

- I will commit to monitoring the drawdown on all my trading strategies
- If the drawdown on my strategy exceeds x%, I will shut it down a reassess

Question 5 – What is the probability of a successful trade?



Unfortunately, this can only be measured once you have a complete set of trades… but it only needs to be a block of 10. It's why I conduct a little review after every 10 completed trades – something taught to me by my mentor, Stuart McPhee. 10 trades allow you to assess your win/loss ratio easily but also to calculate your expectancy. Trading expectancy is a calculation that shows what the typical profit is for each trade placed. If it's negative, the strategy is a loser. If it's positive, the strategy is a winner.

The calculation combines how many trades are typically won with the average loss on losers and the average gain on winners. Put simply, there is no point having a win/loss ratio of 80%, if on the 8 winning trades you make 2% each but on the 2 losing trades, you lose 10% each. Overall, you have lost money because 8 x 2% = 16% < 2 x -10% = -20%. So, make sure to understand your winning percentage, as well as your expectancy (I will do a lesson on expectancy at some point, but good explanations and calculators can be found on the google machine).

- I will commit to reviewing every 10 trades
- I will commit to doing the math
- If my expectancy is negative, I will review my strategy or go back to paper trading until it turns positive again

Question 6 – What is the risk/reward ratio?

Again, I have covered this before in the article Capital Management - Risk/Reward Ratio. Getting your risk/reward ratio right will help you achieve a positive expectancy. Ultimately, traders should be looking for a 1:1.5-2 risk/reward ratio on their trades, assuming a strike rate in the 50-60% range.

Not every trade will work out like that but if individual trades are set up with this in mind, they will be more likely to produce favourable outcomes. Across a set of trades, the sum total is these outcomes are far more likely to be profitable overall.

- I will only trade setups that have a suitable risk/reward ratio

Question 7 – Where will I place my stop loss orders?

Another topic I have written about before. For the sake of brevity, I won't repeat the previous comments here. Check out the article via this link: Capital Management - Identifying Your Stop Price.

- I will decide in advance where to put my stop loss
- I won't enter a trade without a stop in place
- I will never cheat on the stop, i.e., move it backwards or ignore it – that defeats the purpose

Question 8 – When will I stop trading?

It might sound strange but there will be times when stopping trading is the right course of action. You could be burnt out. Your strategy might not still be working effectively. You might not have the right equipment, or be in the right frame of mind. Knowing when to pull the plug and halt activity is just as important as any of the technical tools, such as stop losses, that help you to govern risk.

More specifically, have some targets. If you are an active trader, you might set yourself a daily/weekly/monthly profit target. Once you have hit that target, take a break. Don't be that guy, sitting at the poker table up big, only to give it all back to the house.

- I will be mindful that, sometimes, stopping trading is the best course of action
- I will stop trading if I suffer x% loss in a day, week, month
- I will stop trading if I hit my daily, weekly, monthly profit target

That's it for this step. It was a big one with a lot to digest. And please, remember what I said at the start, as I wasn't playing around…

Without this section of your trading plan, the rest of it is next to useless

Trading Plan Step 7 - Money Management

As noted in the previous article, risk management is about defence and having a strategy in place to cut your losses efficiently, whereas Money Management is about attack and ensuring your get the most out of your trades by letting your profits run.

Before I get into the fun stuff however, unless you are a professional trader (i.e., it is how you make your living) then your trading funds should be an amount of money that you are prepared to lose and that won't make a difference to your standard of living if you were to lose it. Whilst the intention, of course, is not to lose it, the reality is that you might and no trader – regardless of experience of prior profits – should ever forget that fact.

Question 1 – How will I handle a large drawdown – or profit?

Best to make sure this is well thought out and answered in your plan, because it will almost certainly happen at some point. A string of losers in a row, the market diving sharply and taking your long-only positions with it, god-forbid you risk too much on one position and blow a big hole in your account (this shouldn't happen, unless you are breaking the rules!).

Either way, everyone endures drawdowns at some point. So, what are you going to do? On the other end, what happens if you make a whole lot of money. Best to have a plan for that to, otherwise you won't know what to do with it when it comes.

- In the event of a large drawdown, I will pause my trading strategy and only commit new funds once I have identified the problem and forward tested the changes
- When I have built up equity in my trading account (beyond that which I need to trade my strategy) I will withdraw excess funds and/or scale up my position size to reflect the bigger trading pool

Question 2 – How will you manage profitable positions?

Often an afterthought for many traders, especially newbies, is what to do if the position actually goes the right way. We are so often concerned with the entry decision and the potential for loss, that everything going right and making money is often a secondary consideration. This could lead to panic and poor decision-making should the stock really take off. There are ways to manage positions, particularly if you don't have the time or want to watch your positions actively, and that is via a trailing stop loss.

As the stock moves higher, you periodically increase your stop level by a defined amount, i.e., if the stock goes up 5% in a day, that is your trigger to raise your stop loss 5% from its initial position at the end of the day. The goal is to get your stop loss to breakeven initially, and then into profitable territory. Using a trailing stop loss will allow you capture most of the move higher and avoid still being in the trade if it collapses back to your entry price or worse, your original stop level.

- I will use a trailing stop loss that I adjust every hour/day/week/month
- When the stock I am trading goes up x%, I will raise my stop loss by x%

Question 3 – Will you build your winning positions?

This is not something that is readily available to retail traders (given brokerage costs), unless you have a decent account size. That said, I have known many traders who will use the strategy of adding to their winning positions if they keep performing. Your initial position size will be dictated by the probability of your strategy.

If you have a good winning percentage and positive expectancy, you might risk 2-5% of your account and your position size will be commensurate. Alternatively, you might have a strategy with a low winning percentage, but which wins big when it does and still has a positive expectancy. In that case, you might risk 1% or less.

Either way, once you are in a winning position, will you add to that position? If so, by how much… the same as the original amount, more, or less? If you are adding to your position size and the stock moves higher (adding risk) but at the same time trailing your stop loss higher (reducing risk) this allows to build a large position whilst maintaining a similar risk profile.

- I will add x% to my winning positions but only once they have gone up x% and I have trailed my stop loss x%
- This strategy is not for me and I will not build positions

Trading Plan Step 8 - Exit Strategies

Why put exit strategies ahead of entry strategies? Simple. They are more important.

When you first start trading, you think 70-80% of your success will be determined by what you buy and when you buy it. You put so much energy into your entries, that you tend to neglect your exits. Usually, about 6-12 months into your trading journey – if you keep at it and you are doing it right – you realise that exit strategies are actually FAR more important than entry strategies. Any mug punter can buy something.

How you manage your position, in order to minimise damage if you get it wrong and maximise reward if you get it right… well, that actually takes some critical thinking and disciplined execution.

So, that's why I put exit strategies first. To highlight their importance. An exit strategy helps you to control your risk – which is the only thing YOU CAN CONTROL in the market. You can't control what a company CEO does, or how the market will react to news, or how the market will behave at a macro level.

All of those things are beyond your control. At best you might be able to anticipate how they will affect your positions. But control them? Not a chance. And, if you think otherwise, you're wrong. YOUR RISK. That is it. So, make sure you have it figured out before taking that next trade.

As for the strategies themselves, make sure you apply them consistently. If you are constantly flipping and flopping between exit strategies, chances are you will get it wrong every time (the market has a funny way of doing that to people who aren't consistent – it never seems to go the other way where you get every one right).

Consistent application will also allow you to assess and then adjust. If you have a haphazard approach, your outputs (your data) will be worthless, as it won't tell you anything and you won't know where to look for improvement.

Below is a series of questions to ask yourself when developing an exit strategy.

Question 1 – Will it be rigid or dynamic?

A rigid exit strategy would be one that applies a stop loss say 10% below entry, with a target 20% above. The values don't matter, it's the fixed nature of the stop and target. Once set, they don't move. Rigid strategies can be useful for those considering longer-term trading/investing timeframes. They are very easy to execute and they don't require a lot of work or adjustment once in place.

A dynamic strategy can have any number of elements. The starting point might be the same 10% stop and 20% target, but the stop might be trailed in increments of 5% - i.e., if the stock price moves up 5% from the initial entry, the stop loss will also be moved 5% higher. A dynamic strategy might also take into account nearby technical levels – support/resistance, moving averages, previous swing points, etc. Stops can also be tied to volume, i.e., if volumes start to drop off, stops are moved higher more aggressively. There is no end to how dynamic you can make a stop loss BUT make sure it is manageable. The more dynamic, the more likely you will have to tinker endlessly and make subjective decisions – which somewhat defeats the purpose of the stop loss in the

first place. The less opportunity for you to inject your emotions into the process, the better! Ultimately, keep it simple.

Question 2 – Will you exit before your stop loss is hit?

Those who have the ability to watch trades as they unfold might choose to exit ahead of the stop loss. It stands to reason the that closer the price gets to your stop loss, the less and less likely it is that the stock will turn around. 80-90% of the way to your stop loss, you're pretty much cooked. Why cost yourself that extra 10-20% if you can see the writing on the wall. Sure, there will be one in 100 that turns around that you exited early – there are no free lunches.

If you do choose to get out early, you should still try to quantify the conditions and reasons why, so that you can 'program' them into your strategy. For example, one thing I have adjusted through managing the Trading Ideas through the newsletter is that if a stock falls sharply on the day that I get in (perhaps more than halfway towards the stop), then I should exit straight away.

Question 3 – What about exiting winning trades ahead of a target?

There will be times for this as well. Reporting season or an unexpected company announcement is a good example. You might have a position that was underwater, which reports or drops news, and then is up 15% on the day. All of a sudden, your losing position becomes a winning one. What do you do? Are you greedy and keep holding, or do you thank your lucky stars and move on? It might depend on other considerations as well, such as fundamentals or the stock's narrative. Either way, be prepared and know in advance what technical/fundamental/narrative factors you want to see to inform your decision. The worst thing you can do is have a situation fall on your head and have no idea what to do. That is what the whole point of having a plan is designed to avoid.

Question 4 – Will you scale out or scale up?

If a trade is going your way, do you take profits along the way – again, perhaps at predetermined levels, i.e., half when the price action is halfway to your target, 25% at three-quarters of the way, and the final tranche at the full whack. It's a common strategy that a lot of traders employ but it will depend on your risk profile. As I have talked about previously, there are also some traders that like to add to their winning position as it goes higher, rather than take risk off the table. So, think about your risk profile and whether you look at a winning trade as an opportunity to swing for the fences, or as a fleeting gift that could evaporate as quickly as it arrived.

Hopefully, those questions stimulate your thinking about how you will shape your exit strategy. In case it wasn't clear earlier, an exit strategy is supremely important. A good, well-constructed and well-executed exit strategy is often the difference between those who think trading is a hobby, and those who are actually making money. I don't know about you guys but my hobbies already cost me enough, so I'm not interested in adding trading to the list.

Trading Plan Step 9 - Entry Strategies

In the previous step I covered exit strategies. In this step I will look at entry strategies. Or 'setups' as they are commonly referred to.

Again, I am not going to simply give you a bunch of strategies. No, the point is to get you thinking about how you are going to whittle down the 2185 odd stocks on the ASX to a handful of high-quality, liquid, tradable opportunities, from which you might select one.

Why have an entry strategy at all? Well, if you have a good one you can increase the probability of a trade's success and, if you have a bad one but at least apply it consistently, you can adjust it until it starts to work.

Be mindful though, that there is no magic here. There is no secret entry strategy that will unlock massive profits and guarantee success every time. And whatever strategy you adopt, it needn't be complicated. As I have said many times throughout this article series, keeping it simple is often the best way to go. Furthermore, as noted in the previous article you exit strategy is far more important than your entry strategy.

Question 1 – What type of strategy will you employ?

This question goes back to what type of trader you want to be. If you are a trend trader, you will likely be looking for breakouts or retracements, whereas if you are a swing trader you are probably looking for mean-reversion/reversals. Don't try and do too much, i.e., pick one strategy as your dominant one and understand that most of your trades will be generated by that strategy, and you might take a setup here and there of the other variety. For example, I am a self-confessed trend trader and breakouts are my favourite setups. Every now and then I will look for some oversold, mean-reversion opportunities. Bottom line, know what you are and be glad of your chains.

- My primary strategy is trend following, looking to ride momentum until the market tells me the trend is no longer valid
- My secondary strategy is to look at overbought/oversold opportunities which may have been driven by news, as prices often revert after extreme periods of price action

Question 2 – What are your setups?

A setup is a set of characteristics that define your entry. It's difficult to talk about these things without providing some examples and anyone who has followed my Trading Ideas section in the newsletter should have a good idea of what mine are.

In case you don't, I like to see 3MA (3 EMAs in a bullish configuration), I like to see important support/resistance and swing points in play, and I like three-bar candlestick reversal patterns off key levels. Sometimes I will also consider volume and what role it is playing in the strength/weakness of the trend.

Those are the elements I like to look for and they fit the pattern of seeing a TREND, seeing a key LEVEL, and seeing SIGNAL. If you don't know what these things are, that's OK, but you do have some work to do. For those of you who follow, it doesn't need to be any more complicated than that. You want to be able to identify the elements of your strategy in real time and efficiently so that you can make quick decisions if necessary.

- I will keep my setups clean and simple, focusing on just a handful of elements
- My entry strategy will have the following elements at a minimum…
- I may also consider X and Y in my decision making

Question 3 – How will you find your setups?

As mentioned above, there are more than 2000 stocks on the ASX. Are you going to look at 2000+ charts every day? Of course not. Maybe you limit your universe to the top 100. You could very easily set up a chart template and scroll through 100 charts looking for the visual cues of your ideal setup.

Not hugely practical or efficient, but possible. Alternatively, you could invest in some trading software and data (Metastock, Beyond Charts, Omnitrader, etc) and scan the 2000+ stocks on the market for charts that have the characteristics you are looking for. If the elements of your setup are clearly defined and tight, you might find yourself looking through 5-30 charts each morning at most – all with the characteristics you want to see. That's pretty powerful stuff. Of course, that software and data costs money so if you can't afford it or don't want to spend the money, just narrow your universe. If you can't find a good trade in the ASX top 100, respectfully you haven't got the right setup to being with.

- I will use software/data to scan the market for the opportunities I am looking for
- I will limit my universe to the top 20/50/100 to make sure my process of setup identification is manageable

Question 4 – Can you write it down?

Be precise. It matters. Be clear, be unequivocal, be unambiguous and be explicit. This is the only way to remove your emotions from the process. Emotions are your enemy. It's why you wrote this trading plan in the first place. As I have mentioned before, anyone should be able to pick up your trading plan, understand it, and execute the same trades, at the same price. It's a lofty goal but, if you can achieve it, then your work is done.

Trading Plan Step 10 - The 10 Most Important Trading Rules

Only 10 Chris? Obviously, there are many more trading rules, some of them good, some of them pointless catchphrases. These are the 10 that I have found most useful over my journey and that I am happy to share with you because they are impactful.

1. **PROTECT WHAT YOU HAVE**

This is the rule to rule them all. Really, it's the only rule that matters. You MUST protect what you have. A former trader colleague of mine used to tell me that if you made it to the end of the year and still had what you started with, it was a good year. Anything on top of that was a bonus. I didn't understand it at the time but there are so many good lessons tied up in it. Firstly, trading is hard. Really hard. It doesn't come easily so make sure you treat trading - and the market - with respect. If you don't, it will rob you blind. Secondly, defence before offense. Don't get carried away with the millions you could make, before you have made them. Even then, you better have a damn fine plan to protect those millions once earned. Ultimately, have some humility and protect your capital the way a mother bird protects her young. And remember, if you lose all your capital, the game is over.

2. **TRADE WHAT YOU SEE, NOT WHAT YOU THINK**

This rule came to me later in my trading journey and it was an epiphany. As I have written about in the newsletter and in this trading series, I went down just about every rabbit hole possible looking for the holy grail. I researched different indicators, studied a million strategies, and even spent time building trading systems – or at least attempting to. Then, this came along and straightened me up. It allowed me to simplify things, to realise that less is more, to understand that there is no holy grail, and to **pay attention to the price action and what it is telling me**… rather than creating ever sophisticated and elaborate ways to guess what it might or might not do next.

3. **ALWAYS USE A STOP LOSS – ALWAYS**

This one is self-explanatory and really doesn't require any more explanation. If you're still not sure, then you haven't been paying attention. Go back to the start of this Trading Plan series of articles and start again.

4. **CUT YOUR LOSSES, LET YOUR PROFITS RUN**

An oldie but a goodie. You have to know when to hold 'em, and know when to fold 'em – god bless you Kenny.

I first happened across it in *Reminiscences of a Stock Operator*, by Edwin Lefevre (if you're serious about trading, make sure to read that book). A lot of people use it as a sound bite, something seemingly intelligent to say when discussing trading. There is more to it than that. It's really telling you that you need to have a plan for managing risk.

As I've said before, any dummy can buy stocks. People who make money have detailed plans for how to maximise their upside, and limit their downside. Get this right – no mean feat – and you're well on the way to trading profitably.

5. NEVER, EVER…EVER ADD TO A LOSING POSITION. EVER

Did I make myself clear? Some investors might like to 'average down' – that is, buy more of a stock when it falls so that they have a lower average entry price. They have a long-term view and, even when buying more, the position being added to probably still only represents a small portion of their overall portfolio. Adding to a losing position when trading can see your position size, and therefore potential loss, accelerate quickly. And that would violate rule number 1. So, don't do it. Just don't.

6. KEEP EXCELLENT RECORDS

Document what you do. Have a trading plan. Log your trades and have a structure that allows you to review what has happened. Your trading outcomes are your data. As we are all becoming increasingly aware, data is very important and super powerful these days. Keeping good data will allow you to look back over what has worked and what hasn't, and make adjustments to improve your outcomes. If you don't have good data (or any data at all) from which to draw conclusions, you might as well just throw darts at a dart board.

7. DON'T FALL IN LOVE WITH STOCKS

It's hard not to do. Just as parents secretly have a favourite child, traders will undoubtedly have favourite stocks. But just as you wouldn't tolerate your favourite child taking your vintage sports car for a joyride (Ferris Bueller style), you should not tolerate a favourite stock costing you money. When behaving badly, a favourite stock needs to be treated like any other and eradicated from your holdings. Do your best to treat stocks as vehicles that will help you to create or lose money. Nothing more. Don't worry about whether they make buggy whips or sell tangerines (watch Danny DeVito's speech in *Other People's* Money – that reference will make sense). If you can do that, you will maintain the requisite objectivity.

8. CONTROL YOUR EMOTIONS

Don't panic and don't get too exuberant. The market will test you. You will find yourself with a fistful of stocks, all showing a profit, and then you will wake up to a 10% demolition on US markets. You will have to move quickly. Figure out what you will hold and what you will dump. You will need to find order amongst the chaos.

These things can and do happen. I have lived them. They are stressful times. Even more stressful if you don't have a plan and you can't control your emotions. The other side of it… don't punch the air when everything is going well. Stay humble and, more importantly, stay focused. It will amaze you how many times in your trading career that just as huge profits are mounting, suddenly they are yanked from your grasp – usually when you're not paying attention because you are too busy punching the air.

And finally, don't worry if you miss a great trade. There will be more… and more… and more. The market isn't going anywhere (unless capitalism fails and then we've all got far bigger problems).

9. PAY ATTENTION TO YOUR TRADING COSTS

These can be a killer and so many people don't pay attention to them at the beginning. They don't understand the impact of their trade frequency and their trading costs on their account size. They simply trade a lot and think, if I have more winners than losers, I should be making a heap of money. Depending on your account size and how often you trade, transaction costs could be anywhere from 5-50% of your total capital over the course of a year. Imagine having to make a 50% return just to cover your trading costs. Yes, bizarre, but I have seen it happen. Treat trading like a business, be aware of what is coming in AND what is going out.

10. DEVELOP A TRADING PLAN

This entire e-book has been about helping you develop a plan. Have you done it yet?

Developing a plan, sticking to it, and refining it for improvement will put you ahead of 80% of your competition. Yes, it's a lot of work (hopefully made easier by this series) but it is well worth it. If someone told me I could improve the probability of my trade (any trade) being a winner by 80%, I would be all over it. You should be all over this. So, what you are waiting for? Get on with it!

So, that is the end of your guide to building your own Trading Plan. It has been... emotional.

When I originally wrote these steps for Marcus Today members, I received an email from a member just before publishing step 10 in the series from James, which said the following;

Hi Chris,

Just want to say thanks for sharing all your charting and technical knowledge. As a fairly new investor the information (and entertainment) provided by you and the whole MT team is invaluable and has really helped turn my performance around – In particular your trading plan series.

Thank you, James, for that amazing feedback to me and the entire team. And thank you so much to everyone who has contacted me throughout the original series, sharing with me their thoughts, asking for help, and being appreciative of the insights. Your feedback

has helped to guide this E-book. I'm pretty confident that I speak for the entire team when I say that it is these interactions and the knowledge that we are genuinely helping people, that keeps us going.

Where to now?

To take your education further, consider taking our Technical Analysis for Investors course.

We developed this course in partnership with my mentor, Stuart McPhee, and designed it to help investors use technical analysis to complement their trading/investing strategy.

The full course is valued at $399, however you can try lesson one for free HERE.

Stuart has also written a book called '*Trading in a Nutshell*' which is now up to its 4th edition. Definitely worth checking out for any budding traders.

If you haven't already joined the Marcus Today community, please take advantage of our free, 14-day trial. Once on trial, you will get access to my daily trading updates which include ideas generated from my personal trading plan.

Now go out there, develop your plan, and be the best trader you can be.

Happy trading,

Chris