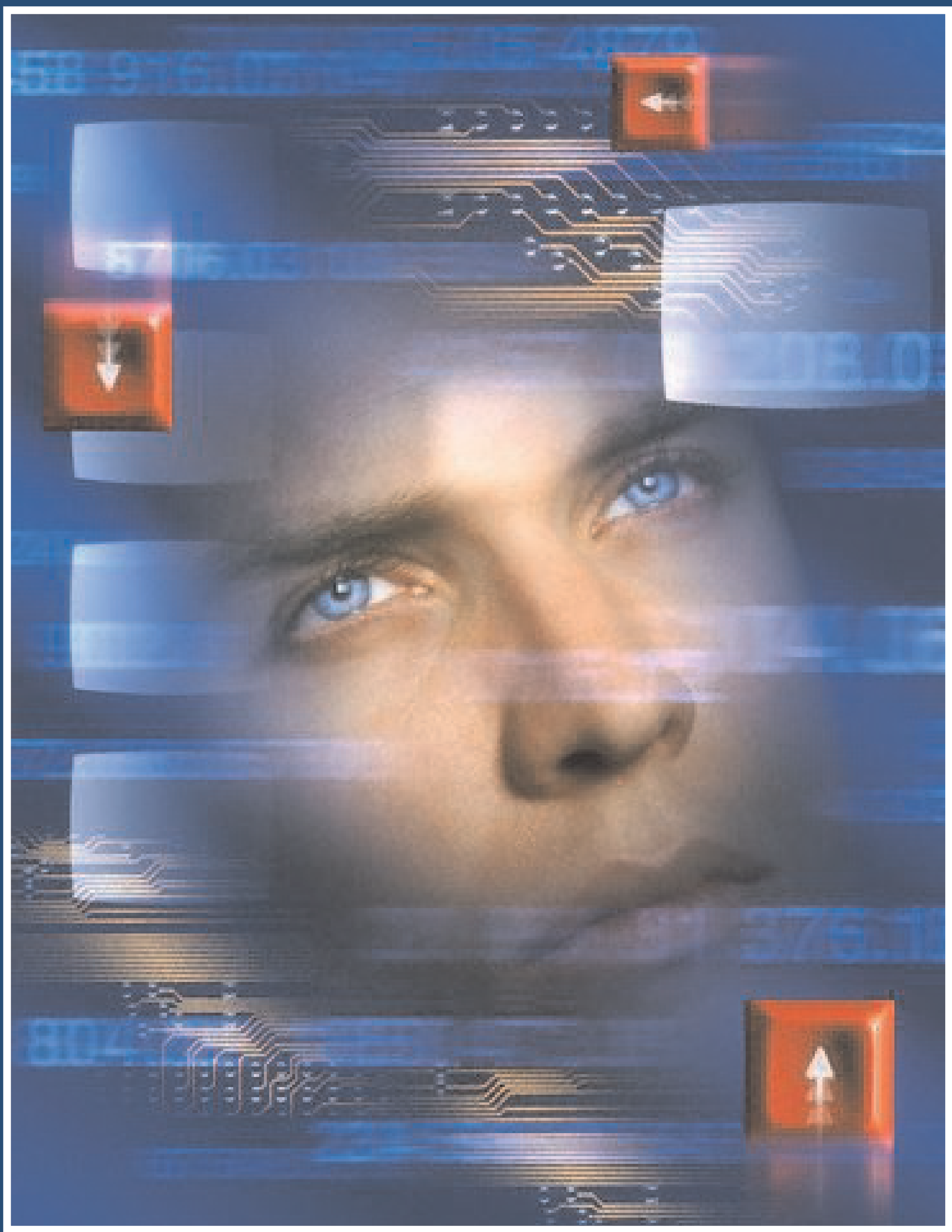
Your Trading Plan



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Your Trading Plan

Your trading plan should be based around your investment objectives, your personality and your starting capital. Trading is different for everyone and it is important to have a plan that is realistic and reflects your unique personality and circumstances.

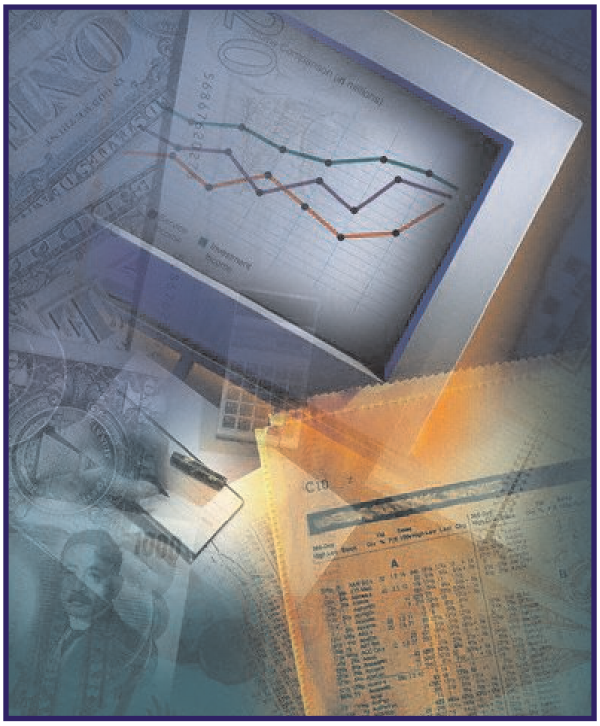
Constructing & Implementing Your Trading Plan:

Do Your Homework

It is first essential to learn the basics, how and why markets move and research a method that you are comfortable with to trade: ie one that is based on sound methodology, and one you can trade with confidence, and discipline. So before you start to trade make sure you have good background knowledge on all aspects of trading. You would not try and fly without lessons, and the same is true of trading currencies. If you trade and "shoot from the hip", or on tips from friends, and stories in the financial press, you are almost certainly going to end up a loser over time.

Match Your Method To Your Personality

Should be one you have decided you have confidence in and can implement with discipline. This may sound obvious, but many traders trade in a way that is totally opposed to their personality. For example, if you are impatient and hate giving back any profits then a long-term trend following system is not for you; you would probably be better suited to a shorter-term swing trading method.



Begin With A Simple Method

One fact that remains true is that simple systems work best for most traders. There is no link between the complexity of a method and how successful it is. Another advantage of simple systems is they are easy to understand and implement and this helps you stay disciplined in the face of the inevitable run of losing trades.

Begin With Sufficient Capital, Trade Small Positions And Diversify

The utopian dream is to start trading with a small amount of money and make it into a fortune in a few months. The reality is this is unlikely to happen to the majority who trade. The first thing to do when trading is start with enough capital to take a string of losses. The simple fact is: the less you start with the lower your odds of success. It's a matter of logic. If you are hoping to get on board one big move, it may take ten consecutive losses before the winner comes. By then your capital could easily be depleted and the move you were hoping for comes without you being able to participate. Always start with enough capital to allow you to take a few losses. If you can you should hold a few trades in different areas to diversify your positions ie "don't put all your eggs in one basket" and blow your money in one trade. To start with keep your position size small and spread the risk.

Make Objectives Realistic

What is realistic amount of profit to aim for annually on your starting capital? Many investors when asked this question simply say as much as possible. They have not sat down and thought about it, they simply have read stories of the minority who have made it big and want to do the same. The fact is that most traders' start with unrealistic expectations and this leads them in to a false sense of security. They ignore the risks of trading; they concentrate too much in one trade and risk too much and end up losing. So what is realistic? Any trader who can achieve growth rates compounded of 30% + per annum is doing very well. Generally, a compound growth of 30 - 50% per annum would place you in the top 10% of traders that make money and this is a realistic goal if you do your homework.

Be Independent And Isolate Yourself

Emotions are your enemy when trading so it is important to be independent and follow your own path. It may sound lonely relying on yourself and is in fact uncomfortable to many but as time goes on your own opinion is just as valuable, perhaps more so than any others, experts or novice traders.

Don't Lose Sight Of Your Ultimate Goal:

The ultimate goal of trading is to make money. There is no goal greater than this in trading. Though there are other benefits to trading self-satisfaction, competitiveness and the actual thrill, these are all secondary. If you seek revenge against the markets, other traders or merely want to compete for the sake of it, then the primary goal of speculating will be lost and so will your money.

Ten Types Of Market Action To Avoid:

Don't Act On News Stories

The market is a discounting mechanism and the news you see has probably already been reflected in the market price. As newspapers and the financial press tend to reflect the views of the majority they tend to be wrong. Articles and stories can be very convincing and that's what there designed to be, a good story it maybe, but the chances of you making money out of it are slim. Stay away from these stories and have disciplined technical approach that is helping you understand not only what has already happened, but also what is likely to happen in the future.

Don’t Be Discouraged By Losing Trades

If you don’t like losing then you wont like trading, as you will probably have more losing trades than winners. We all want to be right its human nature, but trading involves losing and you need to be prepared for this fact. The fact that you lose on individual trades is not important, its how you run your profits and cut your losses overtime that is. Many traders make money on 50% or less of their trades but by using money management, and maximising their winning trades, they end up making money longer term. Perversely losing is part of winning in trading and is not to be feared.

Don’t Chop And Change Your Method

Many traders after a few losses decide that they need to change their method or alter it. So they get a new method and that doesn’t work, so they find another one and so on. The fact is chopping and changing your method if it has a string of losing trades doesn’t mean that you have a bad system, all methods even those by the worlds top traders have losing periods. If your methodology is well founded stay disciplined and persevere with it and avoid the temptation to chop and change.

Don’t View The Market As Your enemy

The market is not an enemy many traders get angry and frustrated with it. It needs to be respected and approached in a disciplined manner but it isn’t against you or anyone else, don’t get emotional about it.

Don’t Enter Trades Without A Stop

If you enter a stop when you enter a trade you know what the worst outcome is in advance and things can only get better! Also placing stops in advance means you will remain disciplined. Chances are, if you don’t put a stop in the market in advance, you will be tempted to let the trade stay on a little longer to see if it will turn around. Invariably it doesn’t, so a small lose becomes a bigger loss. The aim of trading is to keep losses small and run profits, placing stops in advance is vital way of adhering to this advice.

Don’t Average A loss

This is a method that many traders use to lose money. The logic is simple: when ever apposition goes against you, hold onto it and keeping adding to it so you repeatedly lower your average cost. When the market actually moves your way you will be closer to your breakeven point and quickly end up in profit. The reasoning is logical in a game where no margin is involved and time is not important. In leveraged trading and in particular options trading time passed is lost money. Contracts expire, margin calls continue, and the market invariably moves in the direction you don’t want it to. While you may be right in the long run, you will almost invariably run out of money before the turn in market direction comes.

Don't Pyramid A Position

This is a sure fire way to lose money is to build positions with a top-heavy pyramid. Many investors mistakenly believe that as a market moves in their favour, they must add more and more positions to maximise the move. What happens, of course is the pyramid is built upside down. The more contracts that are added the more top heavy the pyramid becomes. The slightest change in market direction will then send the pyramid crashing down. If you really want to try pyramiding give it a firm base by putting your largest position in the market at the start. Add successively smaller trades as the market moves in your favour. You will still have a good-sized position at the end of the move and your average cost will be much less than with the top-heavy version. Top heavy pyramiding does not generally work so avoid it.

Don't Share Your Trades With Friends

Your trades are not important to your friends so don't tell them. This will stop you reinforcing the reasons for your position to yourself. If you do this you will be inclined to hold onto them in spite of what your method is telling you. In fact don't discuss your trades with anyone. It will in the end lead to swapping of opinions that will end up confusing you and diverting you from your own market conclusions. A good trader will not express to many opinions to others, as there is nothing to be gained and the trader will upset his discipline and focus by doing so.

Don't Trade Unless You Have Risk Capital

If you can't afford to lose you can't afford to win, it's as simple as that. Trading scared money means you are emotionally involved and once emotions are involved your trading will suffer.

Don't Trade On Emotion - Stay Disciplined

The enemy of all traders is emotion. Staying disciplined sounds simple on paper but in the adrenalin rush of trading it is hard for all traders no matter how experienced they are to do. The thoughts in this article are designed to give you some idea of how to construct a plan that will help you trade a sound logical method, with discipline and avoid some of the most common pitfalls that novice traders make that are a product of their emotions.

Final Words...

Your trading plan is personal to you and it is essential you stay focused on your path to longer-term profitability. It's not easy, but it's not as difficult as some would have you believe. Many of the points in this essay may seem obvious but the majority of traders don't heed them. If you do you will give yourself a head start on the road to a successful trading career.