TRADING **PLANS**

2023-2024

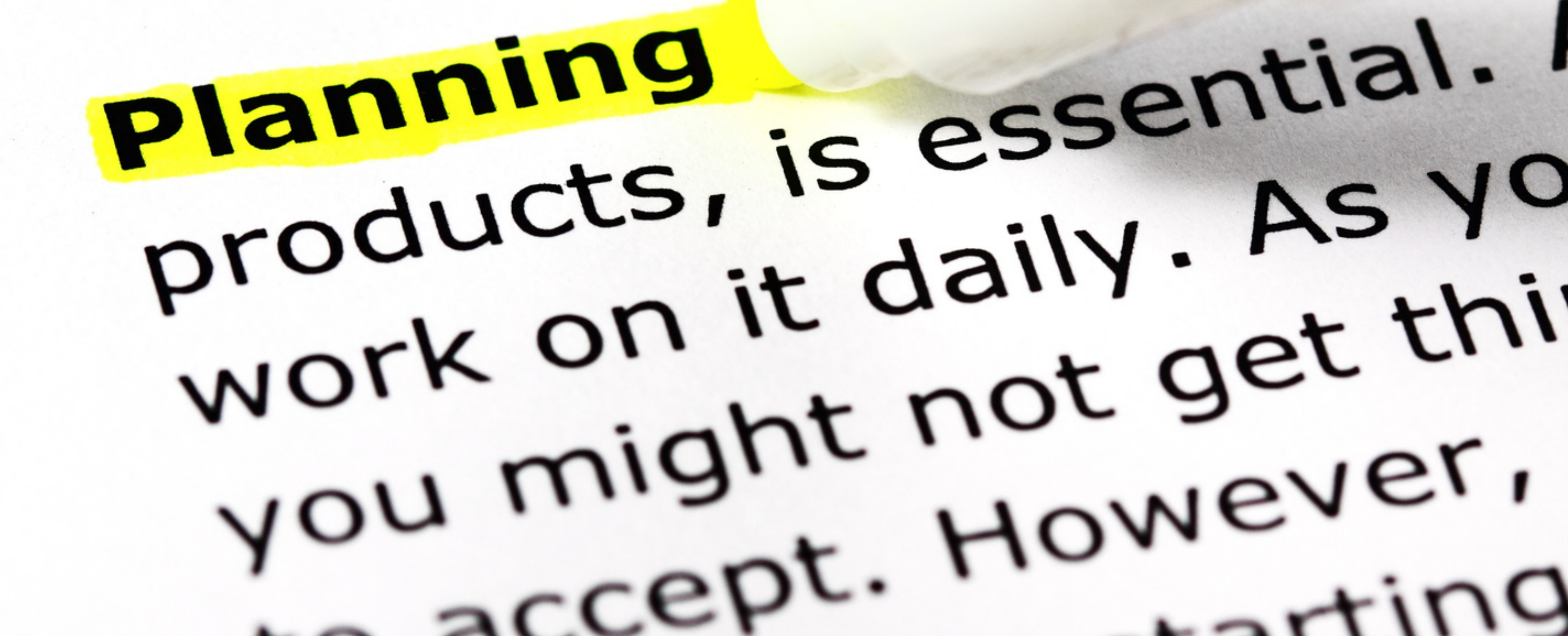
Creating a successful trading plan

Learn how to create a successful trading plan and put it into action. With a smart plan, you'll have guidance on which market to trade, when to take profits, when to cut your losses, and where other opportunities could exist. There is an old expression in business that, if you fail to plan, you plan to fail. It may sound glib, but people that are serious about being successful, including traders, should follow those words as if they are written in stone. Ask any trader who makes money on a consistent basis, and they will probably tell you that you have two choices: 1) methodically follow a written plan or 2) fail.

What is a trading plan?

A trading plan is a comprehensive decision-making tool for your trading activity. It helps you decide what, when and how much to trade. Trading is a business, so you have to treat it as such if you want to succeed. Reading a few books, buying a charting program, opening a brokerage account, and starting to trade with real money is not a business plan—it is more like a recipe for disaster.

A plan should be written—with clear signals that are not subject to change—while you are trading, but subject to reevaluation when
the markets are closed. The plan can change with market conditions and might see adjustments as the trader's skill level improves. Each trader should write their own plan, considering personal trading styles and goals. Using someone else's plan does not reflect your trading characteristics.



Building the Perfect Master Plan

No two trading plans are the same because no two traders are exactly alike. Each approach will reflect important factors like trading style as well as risk tolerance. What are the other essential components of a solid trading plan? Here are 10 that every plan should include:

Skill Assessment:

Are you ready to trade? Have you tested your system by paper trading it, and do you have confidence that it will work in a live trading environment? Can you follow your signals without hesitation? Trading the markets is a battle of give and take. The real pros are prepared and

take profits from the rest of the crowd who, lacking a plan, generally give money away after costly mistakes.

Mental Preparation:

How do you feel? Did you get enough sleep? Do you feel up to the challenge ahead? If you are not emotionally and psychologically ready to do battle in the market, take the day off—otherwise, you risk losing your shirt. This is almost guaranteed to happen if you are angry, preoccupied, or otherwise distracted from the task at hand. Many traders have a market mantra they repeat before the day begins to get them ready. Create one that puts you in the trading zone. Additionally, your trading area should be free of distractions.

Remember, this is a business and distractions can be costly.

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Your trading plan can include anything you would find useful, but it should always cover:

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- Your motivation for trading

  What is your why? *(Money should not be the only reason you need a bigger why)*

- The time commitment you want to make

  When will you trade, which session will you trade?

- Your trading goals

  Goals Daily, Weekly, and monthly

- Your available capital for trading
- Risk and trade management rules
- The markets you want to trade
- Your strategies
- Steps for record keeping

A trading plan is different to a trading strategy, which defines precisely how you should enter and exit trades.

Why do you need a trading plan?

You need a trading plan because it can help you make logical trading decisions and define the parameters of your ideal trade. A good trading plan will help you to avoid making emotional decisions in the heat of the moment. The benefits of a trading plan include:

• **Easier trading**: all the planning has been done upfront, so you can trade according to your pre-set parameters

• **More objective decisions**:

you already know when you should take

profit and cut losses, which means you can take emotions out of your

decision-making process

• **Better trading discipline**:
by sticking to your plan with discipline, you could discover why certain trades work and others don't

• **More room for improvement**:

defining your record-keeping procedure enables you to learn from past

trading mistakes and improve your judgment

How to create a trading plan

There are seven easy steps to follow when creating a successful trading plan:

1. Outline your motivation

2. Decide how much time you can commit to trading 3. Define your goals

4. Choose a risk-reward ratio

5. Decide how much capital you have for trading

6. Assess your market knowledge

7. Start a trading journal

Outline your motivation

Figuring out your motivation for trading and the time you're willing to commit is an important step in creating your trading plan. Ask yourself why you want to become a trader and then write down what you want to achieve from trading.

Decide how much time you can commit to trading

Work out how much time you can commit to your trading activities. Can you trade while you're at work, or do you have to manage your trades early in the mornings or late at night?

If you want to make a lot of trades a day, you'll need more time. If you're going long on assets that will mature over a significant period of time – and plan to use stops, limits and alerts to manage your risk – you may not need many hours a day.

It's also important to spend enough time preparing yourself for trading, which includes education, practicing your strategies and analyzing the markets.

Define your goals

Any trading goal shouldn't just be a simple statement, it should be **specific**, **measurable**, **attainable**, **relevant** and **time-bound** (SMART). For example, 'I want to increase the value of my entire portfolio by 15% in the next 12 months'. This goal is SMART because the figures are specific, you can measure your success, it's attainable, it's about trading, and there's a timeframe attached to it.

You should also decide what type of trader you are. Your trading style should be based on your personality, your attitude to risk, as well as the amount of time you’re willing to commit to trading. There are four main trading styles:

Swing trading: holding positions over several days or weeks, to take advantage of medium-term market moves

Day trading: opening and closing a small number of trades in the same day

and not holding any positions overnight, eliminating some

costs and risks

Scalping: placing several trades per day, for a few seconds or minutes, in an attempt to make small profits that add up to a large amount

Choose a risk-reward ratio

Before you start trading, work out how much risk you're prepared to take on. Deciding your risk limit is very important. Market prices are always changing and even the safest financial instruments carry some degree of risk. Some new traders prefer to take on a lower risk to test the waters, while some take on more risk in the hopes of making larger profits – this is completely up to you.

It is possible to lose more times than you win and still be consistently profitable. It's all down to risk vs reward. Traders like to use a risk-reward ratio of 1:2 or higher, which means the possible profit made on a trade will be at least double the potential loss. To work out the risk-reward ratio, compare the amount you’re risking to the potential gain. For example, if you’re risking $100 on a trade and the potential gain is $400, the risk- reward ratio is 1:4.

Remember, you can manage your risk with stop lose.

Decide how much capital you have for trading

Look at how much money you can afford to dedicate to trading. You should never risk more than you can afford to lose**.** Trading involves plenty of risk, and you could end up losing all your trading capital (or more, if you are a professional trader).
Do the math before you start and make sure you can afford the maximum potential loss on every trade. If you don't have enough trading capital to start right now, practice trading on a demo account until you do.

Assess your market knowledge

Do Your Homework, what are the economic or earnings data that are due out and when? Post a list on the wall in front of you and decide whether you want to trade ahead of an important report. For most traders, it is better to wait until the report is released rather than taking unnecessary risks associated with trading during the volatile reactions to reports. Pro’s trade based on probabilities. They don't gamble. Trading ahead of an important report is often a gamble because it is impossible to know how markets will react

The details of your trading plan will be affected by the market you want to trade. This is because a forex trading plan, for example, will be different to a stock trading plan.

First, evaluate your expertise when it comes to asset classes and markets, and learn as much as you can about the one you want to trade. Then, consider when the market opens and closes, the volatility of the market, and how much you stand to lose or gain per point of movement in the price. If you're not happy with these factors, you may want to choose a different market.

Start a trading journal

Many experienced and successful traders are also excellent at keeping records. If they win a trade, they want to know exactly why and how. More importantly, they want to know the same when they lose, so they don't repeat unnecessary mistakes. Write down details such as targets, the entry and exit of each trade, the time, support and resistance levels, daily opening range, market open and close for the day, and record comments about why you made the trade as well as the lessons learned.

You should also save your trading records so that you can go back and analyze the profit or loss for a particular system, drawdowns (which are amounts lost per trade using a trading system), average time per trade (which is necessary to calculate trade efficiency), and other important factors. Also, compare these factors to a buy-and-hold strategy.

Remember, this is a business and you are the accountant. You want your business to be as successful and profitable as possible.

For a trading plan to work it needs to be backed up by a trading journal. You should use your trading journal to document your trades as this can help you find out what's working and what isn't.

You don't only have to include the technical details, such as the entry and exit points of the trade, but also the rationale behind your trading decisions and emotions. If you deviate from your plan, write down why you did it and what the outcome was. The more detail in your diary, the better.

Example of a trading plan

You can use the questions and answers below to help formulate your trading plan. Remember, your trading plan is a personal roadmap – you should therefore consider your own, unique circumstances when creating one.

What is my motivation for trading?

Example: 'I want to learn the skillset of trading so I can gain my freedom first. Second, I want to teach others the skill of trading so they can have to tools to make their money work for them.'

What is my time commitment?

Set aside enough time to monitor your trades but consider what time of day will work best for you. Some traders prefer to keep an eye on their trades all day, while others set aside some time in the morning, during the day, and in the evening. It is always recommended that you manage your risk with stops, but this is especially true if you plan to keep positions open when you will not be monitoring them.

What are my short, medium, and long-term goals?

Example: ‘Ultimately, I want to increase the value of my portfolio by 15% in the next 12 months. To achieve this, I plan to take opportunities three or more times a month, but only when they fit my strategy. I also want to be consistent, to increase my risk every three months if I am

exceeding my 15% target, and to continue to learn by reading financial news for at least two hours a week.’

What is my risk-reward ratio?

To calculate your desired risk-reward ratio, compare the amount of money you want to risk on each trade to the potential gain. If your maximum potential loss is $200 and the maximum potential gain is $400, the risk-reward ratio is 1:2.

How much of your account should you risk on one trade? This will depend on your trading style and tolerance for risk. The amount of risk can vary but should probably range from around 1% to 5% of your portfolio on a given trading day. That means if you lose that amount at any point in the day, you get out of the market and stay out. It's better to take a break, and then fight another day, if things aren't going your way

How much trading capital am I going to set aside?

Example: ‘I will set aside $500 a month, for the first six months.’

Which markets will I trade?

Example: ‘I want to start trading the forex markets. In the future I want to grow my knowledge to trade other asset like the US30, Gold and Oil.’

How will I review my trades and performance?

Example: ‘I will start a trading journal using trade bench website, uploading screen shots and notes on every trade, review the notes every weekend and do a recap of the month. I will write down successes and failures, why I made certain decisions and how I felt about trading every day. I will use my notes to revise my strategy every three months.’

THANK YOU