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What Is a Trading Plan? Including Strategy, Journaling, and Risk Management

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A **trading plan** is a set of rules that governs all activities of a trader. A properly written **trading plan** helps mitigate the impact of emotions in trading and enables the trader to make informed decisions during volatile market conditions.

Moreover, establishing clear rules for various aspects of risk management, such as **position sizing** and **trading plans** for forex and other markets, facilitates better capital and risk management.



A trading plan includes rules for all activities of a trader

A **trading plan** establishes a framework for the trader's activities, resulting in more organized operations and facilitating **long-term performance review**.

What Is a Trading Plan?

A **trading plan** is a comprehensive roadmap for trading that encompasses various elements, including **trading goals, account management (encompassing capital, risk, and emotional management), trading strategy, trading times**, and more.

The rules in this program encompass all trading activities and structure the trader's operations in the market.

Components of a Trading Plan

A comprehensive **trading plan** encompasses all the activities of the trader. Each section includes rules that define the framework of the trader's actions.

Components of a Trading Plan:

- ⚡ **Market Activity Goals:** Define trading goals and expected returns within specific time frames (daily, monthly, yearly, etc.);
- ⚡ **Trading Strategy:** Select a strategy that aligns with your skills and goals;
- ⚡ **Choosing the Right Market:** Analyze and choose the most suitable market for trading based on your strategy;
- ⚡ **Emotional Management:** Control emotions and establish fixed rules to avoid emotional decisions in tense situations;
- ⚡ **Timing:** Determine the optimal time to trade; for example, only during the overlap of the **New York sessions** and **London sessions**;
- ⚡ **Risk and Capital Management:** Set the capital amount for trading and define the maximum allowable loss in each period (daily, weekly, monthly);
- ⚡ **Trade Monitoring:** Due to the high pressure of trading, predefine the actions to take during the trade before entering the market;
- ⚡ **Journaling Method:** Define the key components of a trade for journal writing.

Benefits of Using a Trading Plan

Market volatility often creates stress and anxiety for traders. However, having a specific **trading plan** ensures that the best trading decisions are made under various market conditions.



Benefits of a Trading Plan

Benefits of a Trading Plan:

- ⚡ **Reduced Emotional Impact:** A **trading plan** prepares you for various trading scenarios, reducing the influence of emotions on decision-making;
- ⚡ **Improved Risk and Capital Management:** With well-defined rules for managing the account and consistent application, account control **improves**;
- ⚡ **Increased Return Rate:** A properly developed **trading plan**, when followed consistently, enhances the success rate of your strategy;
- ⚡ **Structured Trading Framework:** Defining proper rules for market activity creates a disciplined and continuous trading process;
- ⚡ **Long-Term Performance Evaluation and Improvement:** Following a **trading plan** allows for long-term review and **correction** of trading performance;
- ⚡ **Avoiding Confusion and Emotional Decisions:** Having clear rules for special situations prevents confusion and emotional, loss-causing decisions.

The Importance of a Trading Plan in Trading

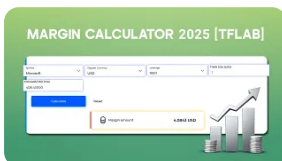
At times, prices in various markets experience **sharp fluctuations** due to different factors. In such conditions, traders often make emotional decisions and expose their trading accounts to **irrational risks**.

A sound **trading plan** includes pre-determined actions for each of these conditions to ensure **minimal risk** and **maximum return**.

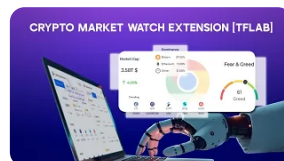


Furthermore, a good **trading plan** clearly defines the trading objectives, which helps prevent **overtrading**.

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How to Create a Trading Plan?

Writing a proper **trading plan** involves evaluating multiple factors, such as **price behavior in different markets, available capital, trading goals**, and more.



Each section of a trading plan must be aligned with other components

Steps to Create a Trading Plan:

- ⚡ Select a trading market
- ⚡ Determine trading hours
- ⚡ Set available capital
- ⚡ Define trading goals
- ⚡ Determine position size
- ⚡ Define trade journaling factors
- ⚡ Prepare a watchlist
- ⚡ Choose a trading strategy

Example of a Real Trading Plan

Suppose you intend to trade with a **\$1,000** capital using the **ICT strategy**. You now need to write a **trading plan** suitable for this capital. Below is a simple **trading plan** for trading with \$1,000:

Sections of the Trading Plan	Selected Factor
Chosen Market	Forex Market
Trading Time	Overlap of the London and New York Sessions
Available Capital for Trading	\$1,000
Trading Objective	0.5% profit per trading week
Journaling Factors	Reason for entering the trade, outcome, and emotions during the trade
Watchlist	EUR/USD, USD/JPY, USD/GBP charts
Position Size	0.5% risk of total capital per trade

Difference Between Trading Plan and Trading Strategy

A **trading plan** encompasses all aspects of a trader's activity, from capital to analysis systems. In contrast, a **trading strategy** establishes rules for **trade entry** and **exit**, thereby improving the **trade success rate**.

Here is a comparison between the **trading plan** and **trading strategy**:

Trading Strategy	Trading Plan
Focuses on position size for each individual trade	Focuses on managing overall capital and account risk

Can be adjusted after each trade	Can be adjusted after long-term use
Only includes entry and exit conditions	Covers the full trading process, including timing and market selection
Aims for profit on individual trades	Aims for consistent long-term activity
Includes entry point, take profit, stop loss, etc	Includes trading time, capital, market, asset selection, and other relevant factors

Key Points for Using a Trading Plan

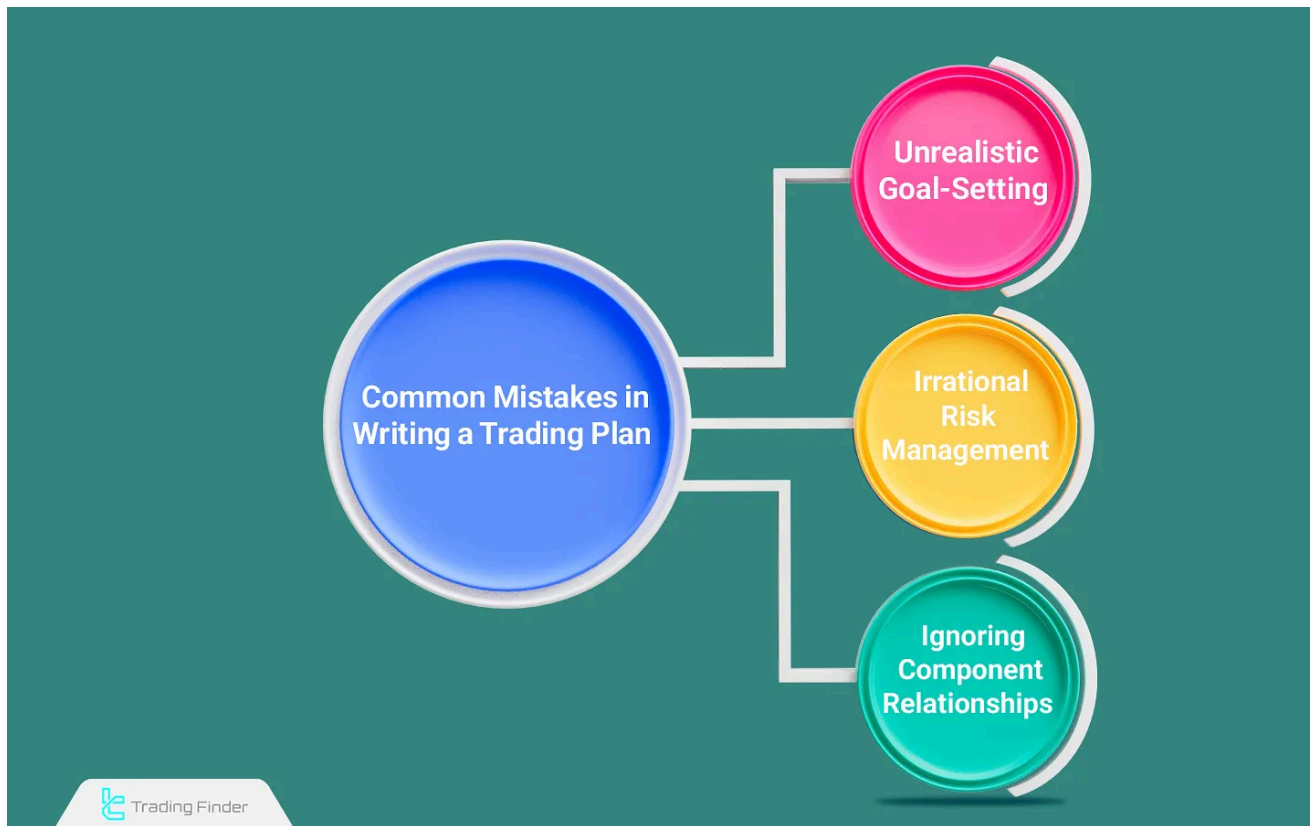
To use a **trading plan** effectively and achieve desirable returns, it's essential to follow certain principles, such as adhering to rules, regularly updating the plan, and reviewing its performance.

Key Points for Using a Trading Plan:

- ⚡ **Updating the Trading Plan:** Financial markets are constantly changing; adjustments to your **trading plan** should be made periodically;
- ⚡ **Fixing Plan Errors:** After some time, any flaws in the **trading plan** should be reviewed and corrected;
- ⚡ **Commitment to Plan Rules:** All updates or changes should be made when not actively trading, and all rules must be followed during live trades;
- ⚡ **Market Compatibility:** Every market has unique characteristics; the **trading plan** must be tailored to the specific market being traded.

Common Mistakes in Designing a Trading Plan

Mistakes in various aspects of **trading plan** creation such as goal-setting or market selection can **reduce trading success** and **yield opposite results**.



Poor goal-setting in a trading plan can lead to trader frustration and failure

Common Mistakes in Designing a Trading Plan:

- ⚡ **Unrealistic Goals:** Setting goals that are detached from reality or incompatible with capital can lead to discouragement and trading **discontinuity**;
- ⚡ **Irrational Risk Management:** Taking excessive risk in each trade shortens the lifespan of a trading career;
- ⚡ **Ignoring Component Relationships:** Failing to align various plan components results in ineffective performance and reduced success rate.

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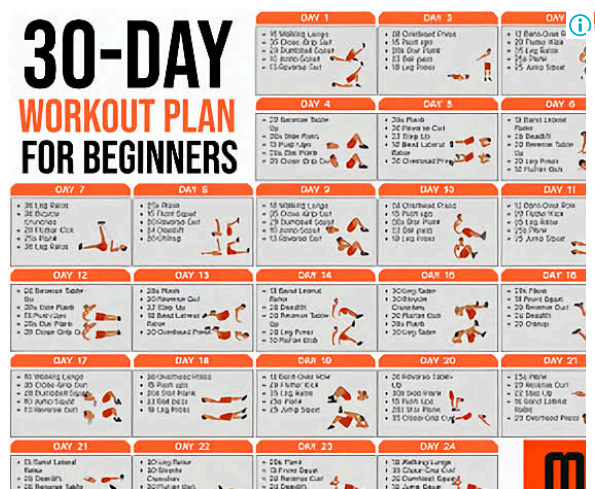


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Conclusion

A **trading plan** is a set of rules encompassing all trader activities in the financial market.

It defines **trading goals, market selection, trading strategy, trading time**, and more, each with pre-defined decisions to be executed under specific conditions.



Having a sound **trading plan** reduces emotional influence in trading and streamlines **capital** and **risk management**. It also creates an **organized structure** that enhances the success rate of trading activities.

Strict adherence to rules, correction of plan flaws, and periodic updates are essential for **boosting trade productivity**. Conversely, poor goal-setting, irrational risk-taking, and lack of coherence among plan components decrease the **likelihood of success**.

FAQs

What is a trading plan?



A comprehensive and structured set of rules for trading.

What does a trading plan include? ▼

It includes trading goals, strategy, market selection, timing, risk and capital management, and more.

What does goal-setting mean in a trading plan? ▼

It refers to defining profit targets over specific periods, such as daily, weekly, or monthly.

How does a trading plan reduce emotional influence in trading? ▼

It pre-establishes correct decisions for volatile market situations, eliminating the need for emotional reactions.

Why Should We Use a Trading Plan? ▼

Without a trading plan, it becomes impossible to evaluate the performance of your market activities. All decisions are made impulsively, leading to a lack of structure in trading. In such cases, there is no framework for identifying and correcting mistakes made during trades.

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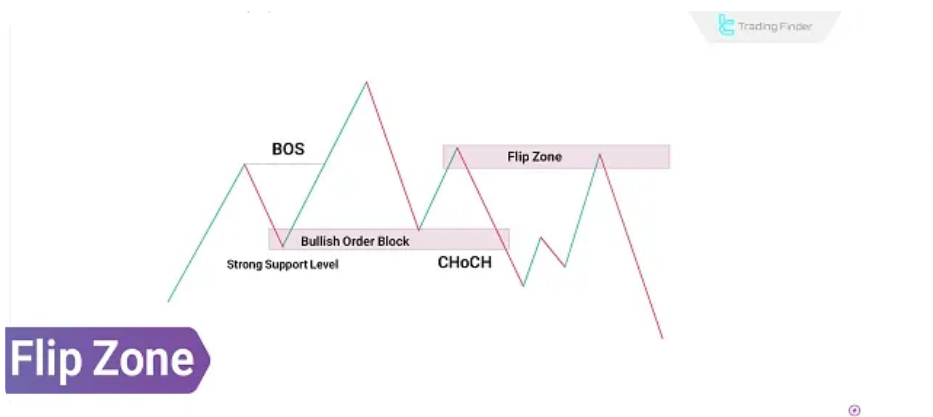
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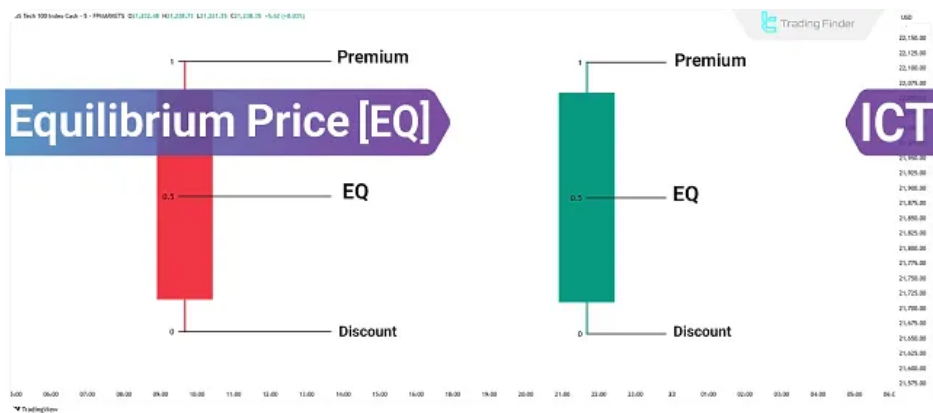


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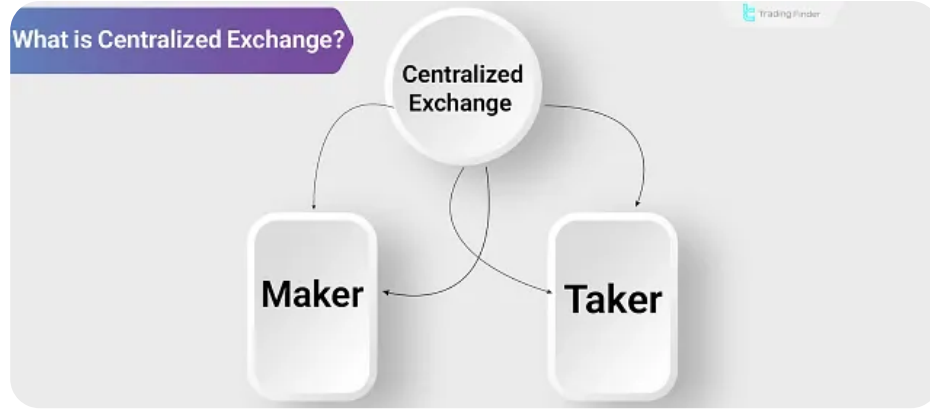
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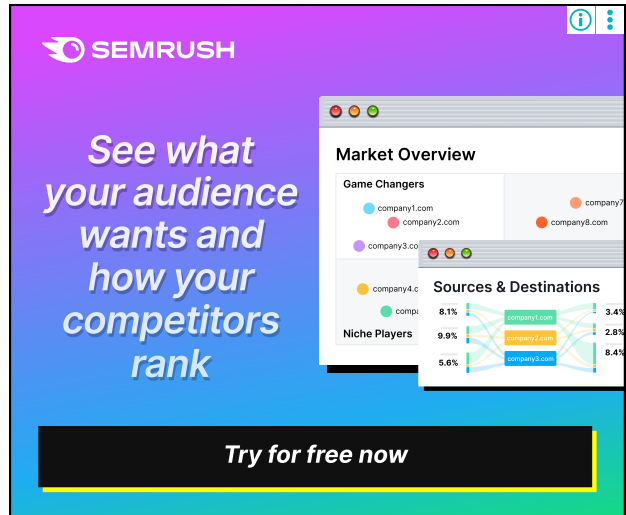
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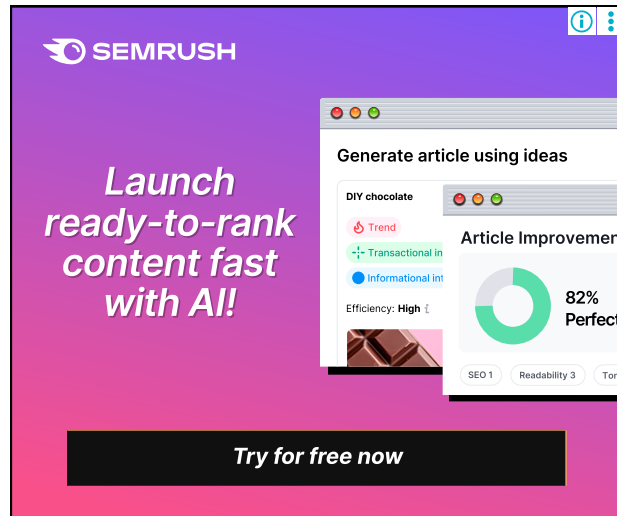
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