

## 1. Self Assessment

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### 1.1 Why do I want to be a trader?

I want to be a trader because I want to trade myself to financial freedom.

My primary objective in wanting to be a trader is to make enough money to supplement my main income from work.

My secondary objective is to spend more time doing other interests instead of my personal finances.

These objectives are important to me because I want to take sole control of my financial affairs.

I believe I can become a successful trader because I'm willing to study and practice the business of trading.

### 1.2 What is my style?

I am a discretionary trader and my style is patient, positional trading. I understand that I cannot predict the future and I accept that I cannot control the markets.

However I can control myself, which I will do by adhering strictly to my trading plan that is detailed, specific, tested and profitable.

### 1.3 What are my strengths and weaknesses?

My primary strengths are that I'm a patient, disciplined person willing to research strategies for trading. I'm self-confident, which gives me a lot of psychological strength in trusting the systems I develop.

My secondary strengths are that I will consider the thoughts and opinions of other experienced traders as well as my own.

My primary weakness are that I'm slow to action at times because I can be too patient or careful.

My secondary weakness are that I sometimes I become too focussed on whatever I'm doing and lose attention on other tasks.

### 1.4 Am I in the right frame of mind?

I will only trade on days when I am rested, relaxed and not distracted by work or family etc. I will be guided by my trading plan and I will adhere to it rigidly. It will help to prevent me from making trades that are poorly conceived and executed; i.e. trades that are based on gut feeling and motivated by fear and/or greed.

I will not trade on days when I am feeling off colour, particularly tired or when I am mentally distracted by other events in my life.

### **1.5 How much time during the day do I have to devote to trading?**

I've got about 1 hour each day, outside work to devote to the daily aspects of trading. I can make time over the weekend to review the week's work as well.

### **1.6 When I'm trading, how many distractions can I expect to have? How will I deal with those distractions?**

I will spend one hour in the evening so I don't anticipate too many distractions really.

### **1.7 How much time do I expect to devote to developing my trading system? And to doing my personal psychological work, and to working on my business plan for trading?**

I've already done extensive work developing my trading system which has involved comparative analysis with other systems, back testing and demo testing.

As for psychological work I believe that trading is 100% psychology and is a vitally important aspect to be worked upon. I have done my own self analysis and know when I'm confident in doing the right or wrong thing, trading wise, as in other aspects of my life.

### **1.8 What are my computer skills? What skills do I need before I begin this trading venture?**

I'm very good with computers. I have used computers most of my life from school onwards.

## 2. Defining My Objectives

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### 2.1 What are my trading goals?

My trading goal is to be consistently profitable every month and year. My strategies are well developed, tested and monitored comprehensively to ensure that they remain trade-able, market sensitive and profitable.

I expect to achieve these goals because I've researched and studied trading techniques that when applied with discipline and patience will help me to succeed in trading.

When I achieve my goal, my reward will be a supplement to my income from work.

### 2.2 What are my income targets?

My main target is just simply to increase my capital base. I don't set a specific target since I can't force any market I trade to reach my goals.

### 2.3 What is my advantage or edge in trading? What is the particular concept that I'm trading that gives me an advantage?

Strategic thinking is my edge, because so many people don't do that. I also have an edge in terms of patience and detachment. Most people are neither patient nor detached.

### 2.4 How much money do I need to make each year?

My income comes from my job, so I don't need anything from my trading income. Trading income is simply a second income for me.

### 2.5 How much social contact do I need?

I don't need much, but I do enjoy it. I believe that trading should be a solitary endeavour for the most part, particularly the decision makings regarding trading. However lessons or opinions from more experienced traders should be sought and counselled where applicable.

## **2.6 How will I know my plan is working, and how will you know' when it's not working? What do I expect from my system in various kinds of markets? Trending? Consolidating? Highly volatile?**

Since my techniques are discretionary they can't be quantified exactly. However if the same techniques that are proven to work on a significant mass of historical data then just by following those rules should in the long term provide a positive expectancy of making a profit. I haven't analysed statistics such as average win to loss, or highest sequence of winning or losing trades since discretionary back testing isn't an exact science.

If it happens that the techniques are consistently failing in today's markets that should force a re-evaluation of my methods.

The historical testing has covered all cycles from trending to consolidating, from volatile to quiet, so these conditions have been analysed.

### **3. Trading System Concepts**

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The basic philosophy of my system is that it is a trend following system. Trend lines are used to describe the patterns which may in turn form other patterns as well as support and resistance levels.

It is important to point out that the trend lines are indicative of price moving from support to resistance levels, or vice versa. So that, for example, price may have recently tested a support level, reversed, and started a new path all the way up to a prior resistance level. This is obvious for non trending markets but even for trending markets the same rule applies, although the levels themselves may have to be searched further back in time (unless new highs or lows are being made).

Once in a position new, smaller trend lines will be used to follow it and stops will be trailed for take profit. Initial stops will be based on the previous swing high or low, which may be days, weeks or months away. Once a profitable trend line is broken, by which it closes outside the line, then at least half, if not all, of the position is closed.

To define a trend we need at least two touches, a credible number of days apart, depending on the set-up. If we draw them too soon then its likely to give a false signal, the further they are apart, the better. The exact number of days apart is hard to quantify and thus discretion must be applied.

Once a given trend is established we will look for other trend lines as support and resistance targets and perhaps offer new entry points on those lines instead. Or we just follow the new trend and use the line for additional re-entry points once in profit. Whatever situation occurs we follow a trend until there is a clear violation of the line, which usually means that there has been a close of a bar outside the trend line.

The system is most vulnerable to trend changes and this is where waiting for a second touch is vitally important to prevent losses occurring too early on new trends.

Even in range bound markets there will be some kind of trend to move price from one boundary to the other, and vice versa.

### **3.2 Strategies, Entries & Exits**

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#### **3.2.1 Which strategies will I trade?**

My primary trading strategy is designed for a non-trending market. It is a regression to a trend line strategy with stops placed at recent swing highs or lows. The trend lines indicate optimal order placements but in practice it is more about watching support and resistance levels.

My secondary trading strategy is designed for a trending market. It is a regression to a trend line strategy with stops placed at recent swing highs or lows. The trend lines indicate optimal order placements but in practice it is more about watching support and resistance levels.

So the strategies for both are identical. So why are they split up? The key difference is the strength of the trend which obviously is weaker in non-trending markets, so are more likely to break up sooner than trending markets. Another important is the relative frequency of the two scenarios – non trending periods should account for the vast majority of the price action in any given time frame with respect to trending periods.

#### **3.2.2 Entries**

An existing trend line consisting of at least two touching points at least 'x' number of days apart. 'x' will depend on the set up and can't be quantified precisely.

Price has moved to meet or touch the trend line. Orders will be placed at the line, above and below the line a set number of pips apart.

Initial stop will be at a clearly defined swing high or low.

If the trend line is newly drawn then it must first break an existing line with the first condition met as well before placing orders.

If the order is filled and the price reverses then we have found an optimal entry point around the line. If however the price continues to move significantly against our entry towards our stop then the entry purely becomes random.

The strategy assumes random entry will be the norm, so we must be prepared to wait for the trade to develop. In such instances the trade will resemble a grid trade where the trend line will act as a regression line (middle section) between support and resistance areas.

### **3.2.3 Exits**

#### **Losing trades**

If the trade goes against me, I can exit before the stop loss order is filled if the price is within 10 pips of the stop, but not more.

The technical conditions for the trade have broken down. For example, a new trend could be in place that has invalidated my reasons for entering the trade.

#### **Winning Trades**

I will trail all winning positions with a stop below the previous bar's high or low depending on the rally. Trailing stops will be moved each day. Exceptions to this rule are:

If a nearby trend line looks like it might check the rally then it will be used as a take profit target and possible reverse entry to current trend.

Trend line is broken by the close of the last bar, then position will be closed regardless of stop.

## ***GENERAL RISK MANAGEMENT***

### **4.1 What is my attitude towards risk?**

My attitude can be summed up as being to minimise risk wherever possible. I will achieve this via diversification of markets and adhering strictly to the risk management regime contained in this section of my trading plan.

### **4.2 What is my overall market risk?**

My maximum market exposure will not exceed a combined total of 2% of my capital at any time.

### **4.3 What about broker and hardware risk?**

My main broker is Oanda. Currently I have no secondary broker.

In the event that my PC crashes I have a back up PC which is a mirrored trading desk.

### **4.4 What is my strategy risk?**

I will monitor the draw-down on my trading strategy. In the event that this figure exceeds 10% from the starting month's capital then I will stop trading immediately and review the whole approach.

## ***SPECIFIC RISK MANAGEMENT***

### **4.5 What is the probability of a successful trade?**

My set-ups have been defined in the last section of my plan and I am familiar with them that I can spot them in real time. Extensive back testing and demo testing indicates that the set-ups have a positive expectancy over a long term sample of trades.

### **4.6 What is my risk per trade?**

For every trade I enter, I will not risk more than 1% of my total equity. For each trade I will identify the ideal stop loss point and vary the number of contracts to ensure that I do not risk more than 1%.

### **4.7 Given my goals in terms of returns and draw-downs, what kind of initial risk stop do I want? If it's close, will I be able to get right back into the market so that I won't miss a move?**

Stops, in my opinion, should be a violation of the reason why I wanted to get into the trade in the first place.

My stop is a function of the market and what it's doing. It's only indirectly related to risk - unless the risk is too big for me to even take a position. I control risk as part of my money management.

### **4.8 Where will I place my stop loss orders?**

For every trade I enter, I will decide in advance where to place my stop loss in the event that the trade goes against me. Its placement will be governed by the strategy described in the last section.

### **4.9 When will I stop trading, or decide not to trade?**

If I lose 2% of my monthly starting capital then I will cease trading for a week and review my trades. If I lose 10% of my monthly starting capital then I will cease all activities and review my trades along with my system, strategies and plan.

I will not trade at all on days where I do not see the set-ups and entry triggers, exactly as specified in my plan.

#### **General Money Management**

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#### **4.10 Large draw-downs and profits – what will I do?**

In the event of a large draw-down, I will only credit additional funds to my account with 'spare' money that I can afford to lose. I will not commence trading again until I have identified the cause of the draw-down and have re-tested the strategy to ensure that it meets my profit objectives. An unexpectedly large loss should only occur in fast markets since my risk management should limit total losses to no more than 2% of capital at any time. When my trading equity exceeds the amount I need to trade my strategies, I will draw allowances as appropriate, and keep my account margined at a higher level to increase my trade sizes.

#### **4.11 Which money management approaches will I use?**

I will consider using the reduced total equity model along with the percent risk money management model which will include unrealised profit or loss before placing a new trade.

**4.12 What kind of expenses will I incur running my trading business?** I need to consider the following expenses rent, light, heat, computer, brokerage commissions.

### ***SPECIFIC MONEY MANAGEMENT***

#### **4.13 How will I lock in profits?**

I will utilise a trailing stop which I will position a few pips below the prior swing high or low of the trend in progress.

**4.14 How will I determine my position size?** I will consider my outstanding equity and calculate a fixed percentage so that my total exposure doesn't go over a 2% limit (calculated in a separate spreadsheet).

#### **4.15 How do I plan to take profits? Reversal stops? Trailing stops? Technical stops? Price objectives?**

Contrary to popular opinion, much of your emphasis should be in the area of stops and exits. I don't limit the amount I can make in a trade. My philosophy is to let my profits run. If I ever find a trade that keeps going in my direction so that I never have to get out, great!

I use trailing or technical stops. Once those are hit, I'm out of the position.

## 5. Daily Activities

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### 5.1 What is my routine?

My daily routine consists of: To analyse the markets according to my system, and place orders if needed.

To review any open trades, update targets and stops.

Trades and markets will be checked once a day from 2000 GMT onwards. Activity should take no more than 30 minutes per day.

### 5.2 Have I analysed my last trades?

Each day, I will ensure that my last trades are analysed and logged, I will check to ensure that I adhered to all aspects of my trading plan.

In the event that I fail to adhere to my trading plan I will amend the new day's trading activity in accordance with the discipline procedures section of my plan.

### 5.3 Have I any open positions?

If I have open trades I will update stops and targets and also check that the trades are still valid according to my system.

## 6. Discipline

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### 6.1 Back Test or Forward Test?

Before I commence live trading with real money, I will back-test and demo my strategies to ensure that they are trade-able and meet my profit objectives without exceeding my risk and money management parameters.

### 6.2 What are my promises to myself?

If I break one of the rules detailed in my trading plan I will stop trading for a full day and focus on the reasons why there was a breach of discipline.

If I break two of the rules detailed in my trading plan I will stop trading for two full days and focus on the reasons why there was a breach of discipline.

If I break three of the rules detailed in my trading plan I will stop trading indefinitely until I address the reason for my poor discipline and, if necessary, amend the trading plan.

### 6.3 What questions will I ask after a winning trade?

Guard against over confidence and ensure that my attitude remains consistent.

Check to see that I did everything as well as I could.

Remind myself that executing the trade in accordance with my plan is more important than the outcome of the trade.

### 6.4 What questions will I ask after a losing trade?

After a losing trade I will: Examine the trade and learn what I can from it.

Check to ensure that I executed all aspects of the trade in accordance with my plan.

Evaluate my state of mind to ensure that I am calm, relaxed and ready to enter the market again with an unemotional and professional attitude.

#### Appendix A: The Competition

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**Who I am up against as a trader? Which group should I am for? Will I compete against my focus group as well? How well do I understand who or what I'm up against?**

(Taken from "Strategy 10" by Rob Booker)

There are four groups in currency trading. There are the novice traders – the greenies, the ones who try to outrun the bear and lose every time. We all start here. We all lose money here. Some of us lose our entire first trading stake (I did).

In addition to the novice traders, there are three other levels of participation: the dealers, the institutional traders, and the advanced retail traders.

In all of your trading, the dealers are the most powerful and they make the market, setting prices and putting together deals. Although institutional traders move more money around than dealers, it is still the case that your dealer either accepts or rejects your orders every time you trade.

The institutional traders work in banks, wire firms, or government agencies. They trade huge amounts of money at a time, and the size of their trades gives them enormous power. Not super powers, but very close. Some of these traders are moving \$1 billion in currency or more every hour. Some are trading billions of dollars every minute.

Next, there are the **advanced retail traders**. This group is comprised of people from all across the world, sitting in smaller investment firms, offices, or even their homes. Eventually, you want to be a part of this group. In some cases, the advanced traders are the smartest group – trade for trade – than any other group. Because they don't move a lot of money on each trade, they don't have as much power as the institutional players. Because their trades are brokered by the dealers, they'll never

have absolute price-setting power. But, because there are so many novice traders, the advanced traders have plenty of people that they can feed to the hungry bears. Your goal as a currency trader is to aggressively take money out of the pockets of the novice traders.