



CREATING A TRADING PLAN

I will be honest; when I started trading I did not have a TRADING PLAN. I really did not see the need for one...I was wrong.

Trading Forex will be more successful for you as a trader if you have a proper plan in place. The classic quote that is often used when referring to not having a TRADING PLAN is “Failing to plan is planning to fail”.

Trading plans are really a lot like insurance. You don't usually want it until you've faced a catastrophe. But after that catastrophe, which maybe was a huge loss on a single trade, or worse, a margin call from one really bad trade, as a trader you probably recognize that something needs to be done.

Regardless of how you get there, just the fact that you actually arrive at the destination of realizing that a TRADING PLAN is not just a “nice to have”, but sometimes a necessity, is generally a positive development in the journey / career of a Forex trader.

The bottom line is a TRADING PLAN is a must.

Here is one very basic reason for having a plan: New traders sometimes barely even have the actual reasons for entering a trade. Imagine, that you were planning to loan money to a new business as an investment. Could you picture yourself lending money to a person without a business plan when they said that they were going to start their business based on “their gut?” Obviously no one should ever start a business by relying on his or her gut alone. However, plenty of new traders start trading in exactly that manner.

So, what should you include in your TRADING PLAN?

A very simple approach is to look at it in four sections: WHAT, HOW, WHEN and WHY. My first TRADING PLAN was along these lines and was short and to the point. As time has elapsed since I started trading my own plan has now reached a staggering 21 pages including all inserts on profitability, plus how I trade with my various brokers and then finally my Marketing Plan.

WHAT: (What type of trader are you?)

I think that the initial question that you should ask yourself is “What type of trader am I?” If you are a new trader, you may not know yet, bear in mind the TRADING PLAN is a fluid document for many things. As you develop as a trader your style will become apparent and you can update your plan accordingly.

The benefit from knowing what type of trader you are is quite straightforward. Defining what you are gives you a comfort zone. If you take a trade that is outside your definition and it loses money it serves as a reminder to you that you were not trading within your comfort zone.

The following is a very simple chart of trader types:

TRADER TYPE:	CHARACTERISTICS OF THE TYPE / STYLE:
SCALPER	Holds trades for a few minutes to maybe a few hours.
DAY-TRADER	Holds trades for less than a day (A bit longer than scalpers).
SWING-TRADER	Holds trades from a few hours to a few days.
INTERMEDIATE and LONG-TERM TRADERS	Holds trades for at least a day and, possibly months / years.
POSITION TRADER	Holds trades as long as needed to build & work a position.

HOW: (How to manage positions / enter and exit trades?)

This is a very important part of your TRADING PLAN. Without a definition of “how” the plan is really both useless and pointless.

In this section of your TRADING PLAN you should specify how many lots you are going to trade on whatever types of trade that you are going to enter. Additionally, you specify what your risk is per trade. This will obviously be in relation to your account size. The rough rule of thumb in this area is not to risk more than either 0.50%-0.75% of your overall account balance on any one trade. By doing this it tells you basically whether you should be trading Micro, Mini or Standard lots.

This section should also contain whether or not you will trade news events and what your risk will be around such events.

This area can be as complex or as straightforward as you want it to be. You can use SMA or EMA, Bollinger Bands, Fibonacci Levels or Pivot points, whatever

you like, whatever is comfortable with your trading style to describe entry / exit parameters to your trading.

The benefit of detail in this section, allows you the opportunity to troubleshoot losing trades. More definition definitely means more discipline.

A very important point here is that the strategy must be your own, what you are comfortable with and not lifted / copied from another source. There is little point me providing a PDF of my TRADING PLAN because each of us is a different type / style of trader.

The above TRADER TYPES (In the "What" section) should help you in connection with outlining your "HOW". The bottom line is to be comfortable as a trader. There is enough stress around trading without you trying to pigeon hole yourself into a type / style of trader that you are not.

In my own TRADING PLAN, I highlight definitions of RADAR, FLASH and FUNDAMENTAL trades. I add to this when each style of trade is appropriate and what my entry lot sizes are for each type of trade. I also include when I will add to positions, how I will use the ATR and Hedging on trades.

WHEN: (When will you trade?)

This is the forgotten item in most TRADING PLANS.

There is so much flexibility as a Forex trader. The markets are open from 5.00pm Eastern (USA) on a Sunday night and close the following Friday at 5.00pm Eastern (USA). The Forex market moves 24x7.

Having said that, the one thing that the Forex market thrives on is liquidity, without liquidity driving the market there is either no movement or extreme lack of liquidity movements, which personally drive me crazy.

There are principally, three trading sessions: -

THE ASIAN SESSION: - The Asian session is more often than not a lot quieter than the London and US sessions. It tends to take its lead from what happened previously in the US session.

THE LONDON (EUROPEAN) SESSION: - Liquidity definitely improves as the European markets open. The overlap from the Asian into European sessions is sometimes the most volatile and there are often very fast, very active, very volatile moves that can define momentum moves with currency pairs. As the Asian markets close the European session settles down.

THE U.S. (AMERICAS) SESSION: - as the U.S. comes on stream the volatility increases once more as the overlap between the European and U.S. traders take hold. I think it is safe to say that from 8.00am to 11.30am Eastern the Forex markets are at their most liquid period of the 24-day.

(If I had to choose a place to live to be a professional Forex trader...it has to be Europe. It is as good as a 12-hour day!!)

When you trade can have a huge influence on your results. It should also define your trading strategy. High volume equals higher risk.

WHY: (This is where you write out your goals and objectives)

This is the final segment and probably the most important of all of them when you look at your TRADING PLAN. Why do you want to be a Forex trader?

More time with the family
or
Financial freedom

Trading is NOT easy. It can be very difficult, and tough, and costly and most of all totally 100% frustrating at times.

Common sense does NOT always apply. The markets are what they are, not what you want them to be, or think they should be. Set your financial objectives conservatively. I was told that a target of 1% - 2% of your account balance per day is good (Personally, I target 1% per day). Maximum trade size should not see you risk more than 0.50%-0.75% of your account balance.

Break down your income objectives to daily targets and build up to weekly and monthly goals. Create an excel spreadsheet that you can follow and use to check performance. You must journal **ALL** your trades (Entry, Exit, was it a Market order, or a Limit order, time of day trade placed or triggered, position size etc.).

I created a mini marketing document this year with detailed goals and objectives. I set out at the beginning of 2014 certain thoughts and views on how the markets would perform. This is part of my FUNDAMENTAL overview contained in my TRADING PLAN. This year for me it is a substantial document.

A TRADING PLAN is NOT something you do and then file away, it should be referred to regularly to check and test your strategies and objectives; in essence a "fluid" working document.

There are great opportunities in trading currencies. You just have to be realistic and set your financial goals to be achievable bearing in mind how you trade, when you trade and how much capital you are risking.

The “WHY” serves as a reminder as to why you are prepared to go through the pain when times get difficult? The WHY helps put things in perspective relative to the bigger picture?

If you find it totally frustrating trying to achieve the goals that you set yourself personally and financially you have to re-evaluate.

Are your goals realistic?
Are you following your plan?

Looking at your results versus your plan allows a complete diagnosis of your performance.

Either you inject some self-discipline and move forward, or, you quit trading. In my opinion and this is the hardest lesson that I have had to learn, there are three things when trading that you must use everyday: -

1. DISCIPLINE
2. DISCIPLINE
3. DISCIPLINE

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