FOLLOWING YOUR TRADING PLAN

Let's say that you have made a very detailed TRADING PLAN.

- You know the rules that you are going to follow to place a trade.
- You have maybe even drawn up a checklist to be by the side of your computer to make sure that you follow the guidelines.
- You have your money management / risk strategy in position and you know how much you will risk on each trade placed.
- You may even have noted in your TRADING PLAN that you will only enter a trade with a pre-determined risk / reward ratio.
- You know what times you are going to trade and what currency pairs you will focus on.
- You have your journal / spreadsheet ready to track and provide further trade analysis.

This is the easy part. You can study all you want and can dummy trade "until the cows come home"; the bottom line though is that until real money is on the table it's all theory, nice as it may be. When your $$$$ are on the line, it is a different ball game.

Having a great detailed TRADING PLAN is fantastic but unless it is executed in line with your parameters, it is pointless and you have wasted a great deal of your time putting it together.

Regular readers of my blogs over the years will know that I am 100% in agreement with many trading gurus that FEAR and GREED drive the markets. These are basic human traits. In trading, the biggest obstacle that prevents most traders from being successful is NOT following their TRADING PLAN…the factors that prevent them following their own guidelines are most of the time psychological.

Psychological issues can prevent the profitability of a trading performance. If you have been trading for sometime, I am certain that you have felt at times that you are not making as much money as you should be based on the TRADING PLAN that is in place. Most of the time when you analyze your results emotion plays a huge part, and at the end of the day we are human and humans have emotions.

There are probably three mistakes that can ruin even the best TRADING PLAN.

1. Taking a trade that is NOT part of you guidelines.
2. NOT taking a trade that is within your guidelines.
3. Changing the guidelines of your plan based upon an event.

Taking a trade that is not part of you plan is tempting. There are many reasons why you as a trader would do this.

- You have a series of poor trades, and you are in a losing streak desperate for a profitable trade.
- You have so much success recently with your trading you think that you know better than the markets, you think you are invincible.
- You read or heard “a tip” from a bank or large institution to say that it is buying a particular currency. You get suckered into a trade and when in it you recognize that ‘the tip” was a sucker trade.
- You jump into a trade, just to get into the market.

All of the above scenarios are quite dangerous. If you generate a set of loss making trades you feel depressed. If by a fluke you generate a few profitable trades, you then break the rules and your plan is worthless. If you make money, it was a pure fluke and just cannot be sustained for anything other than very short-term. Psychologically, this is a bad practice for any trader.

Not taking a trade that is part of your TRADING PLAN, sounds weird put it is quite commonplace. This is where FEAR and GREED comes into play.

- You may have had a series of trades within your trading guidelines that lost money and you decide on the next one to let it go by even though it is within your TRADING PLAN guidelines. You are scared…FEAR of losing.
- You have had 5 or 6 very profitable trades in a row and you believe that your “luck” cannot last any longer.

Regardless of the cause, this is a dangerous path to be on. You can watch what would have been a great trade go by and then you jump in on the trade that may not meet your guidelines. You change the rules to revenge a trade you missed. This usually means that you never maximize your profit opportunity.

Finally, changing your rules can be the worst thing ever that you can do. As a trader you will have loss making trades as well as profitable ones…. it is a fact. If you had entered say 300 trades and you have had success and your strategy is profitable, you should be happy. Some traders may experience 5 or 6 loss making trades in a row, and then without reason change their strategy on entry / exit / risk. Why change your guidelines on such a small sample of trades. Changing your guidelines is something you can do but a “Knee- jerk” reaction is a poor reason to change. You should make any changes based on analysis.

Some traders are happy with 60% -40% ratio of profitable trades to loss making trades. Others are 80% - 20% profitable to loss making trades. It all depends on the type of trader you are and your exit rules on trades as to what to expect with regards to your success ratio.

Hopefully, this short document will serve as a good reference. If you review your trades after 90- days and look at the reasons why you were not as profitable as you thought you should be, check the points above and see if one or more applied to yourself.

As long as we learn from our errors we can move forward profitably. You have the guidelines and rules in place. You just need discipline. Overall my point is you must PLAN YOUR TRADE and TRADE YOUR PLAN.

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