



WARRIOR TRADING

CHAPTER 14. CREATING YOUR TRADING PLAN & RUNNING A BUSINESS AS A DAY TRADER

PART I: CREATING YOUR TRADING PLAN

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Today you will Learn

- How to create a comprehensive trading plan

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Why Is This Important?

Success in Day Trading requires discipline. The trading plan is what you will follow everyday. It's the business plan that will guide you towards trading success.

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At the beginning of this class I presented a Beginner's Trading Plan so you could practice while you learn

You need to follow your trading plan in a simulator (or with real money but small share size for commission free brokerage accounts) until you have at least 1 month of profitability.

Do not trade with real money until you've PROVEN profitability.

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Daily Mental Checklist

Before trading each day you need to go through the following checklist

1. Did I sleep well last night and do I feel well rested?
2. Did I eat well (low sugars to avoid sugar crashes while trading)?
3. Do I see 1-2 stocks pre-market that I like?
4. What is the condition of the overall market for my strategy.
5. How has my trading been in the last few days?
6. Based on my answers to the above questions, what's my max share size today?

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Set Daily Risk & Profit Goal based on Mental Checklist

I have strict max losses on my account and per trade. However, there are days I'll take more risk, or less risk, (within my comfort zone), based on my daily mental checklist.

Beyond the internal checklist, the external checklist (strength of the market) is very important. Even if I've done everything right, if the market is slow, I have to take it easy.

Trade the market you're in, not the market you want to be in.

I ask myself, is this a \$500/day type of market or a \$5,000/day type of market?

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What's your directional bias and strategy?

Which direction will you focus on?

1. Long
2. Short

What are your primary and secondary strategies?

1. Gapping stocks only (Gap and Go)
2. Momentum Trading not exclusive to gappers
3. Reversal Trading

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What Price Stocks will you focus on?

Penny Stocks

Stocks \$1.00-20.00

Stocks \$20+

I make the most on stocks \$2-20 and trade stocks under \$2.00 and above \$20 with caution.

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What Float Stocks will you focus on?

Under 5mil shares

Under 10mil shares

Under 25mil shares

Under 50mil shares

Under 100mil shares

I prefer float under 20mil shares (under 10 and even under 5 will have parabolic potential)

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What time of day will you focus your trading? AND when will you stop trading each day?

Pre-market

9:30-10:30 (opening range)

10:30-12pm (mid-morning through lunch)

12pm-1pm (Lunch "hr")

1pm-3pm (afternoon trading)

3pm-4pm (power hour)

After-hours

I prefer between 9:30-11am unless the market is really hot.

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How will you find stocks to trade?

Gap Scanners

High of Day Momentum Scanners

These are the two scanners I use in my trading.

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What is your PERFECT setup?

Including price, float, volume, gap and chart patterns.

I LOVE stock gapping up 50% or more priced under \$8.00 float under \$5mil shares with a strong catalyst, clean pre-market bull flag, and a very weak daily chart with more than 15.00 per share in room to the 200ema.

My entry will be break of pre-market highs as a gap and go trade, with a goal of a 10-20% move into a circuit breaker halt where I'll take profit and adjust stop to breakeven.

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What setup do you plan to avoid?

News type, time of day, sector, float, pattern setup, etc.

Low float stocks between \$15-20 can be extremely risky for gap and go trades and have resulted in big losses for me. Breaking news in the middle of the day can also be difficult to trade as sometimes stocks will react one way on the news before going the opposite direction.

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Managing your risk

The greatest risk in my career as a trader is that I will experience a period of losing trades. Either through 1 single loss, or through several weeks of poor trading that leads to cumulative losses.

I set a max loss and max position sizes on my account by calling my broker. This will prevent snowball days, revenge trades, and accidents.

I will continually remind myself, success in this career is about the marathon, not a sprint. It's okay if I have to go back to SIM trading or trading with as little as 100 shares just to clear my mind after a period of difficult trading.

I sometimes put myself into "trader rehab" to refocus on the fundamental strategies that work the best and to trade with small size.

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Will you utilize the Breakout or Bailout technique to reduce losses?

If it doesn't start working in the first few minutes of entering the trade, I often just bail out breakeven. I expect immediate resolution from these patterns!

If you are a momentum trader, most trades should be green within 1-2 minutes of taking the entry (if you are using apex point entries such as the first candle to make a new high).

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Daily Routine: Maintain your Trading Records

I maintain both my trading records in an excel doc and by regularly exporting my trades from my broker to review my metrics.

Keeping trading records is critical. This allows you to build up data that you can data mine in the future if you have a slow patch or simply want to improve your trading.

Whether you use TraderVue or an excel doc/google sheet, you need to maintain trading records.

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Perform regular reviews of your trading metrics

I perform audits on a monthly basis of all of my trading stats. Beginner traders will want to do this at a minimum, weekly. You can review your metrics in the trading simulator, or be reviewing your excel doc.

The desired outcome of each audit is to come up with 1-2 ways to improve your trading during the next day/week/month, etc.

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When will you take profit on a winner or sell a loser?

I will begin to sell if:

- 1) I see Heavy Resistance on the Level 2 in the form of a big seller, I bail out by selling on the bid.
- 2) I stop seeing buying, and I'm just seeing a lot of selling on the Time & Sales, I bail out by selling on the bid.
- 3) If my first profit target has touched (possibly just 1:1 ratio), I sell half by selling on the Ask into strength, and adjust stop to breakeven for remainder.
- 4) If 2nd or 3rd profit targets are hit, I continue to sell small pieces on the Ask.
- 5) If my entry is on the 5min chart, typically I will sell on the first red candle on the 5min chart, unless I'm already up so much that I can afford to hold through the pullback.

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Will you utilize hot keys/hot buttons?

In order to rapidly get into or out of trades, I will use hot keys. The most important hotkeys are the ones I use to exit positions and cancel orders. Many of my entries I will have enough time to plan so I can use a standard order entry window.

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How fast will you trade?

I will be extremely aggressive about paying myself when I have profit, and I'll have to be equally ruthless about cutting losers before they get big.

I need to just carve 10-20 cents of profit per day out of the market to make \$100-200/day with 1000 shares.

As soon as I have unrealized profit, I'm going to lock up $\frac{1}{2}$ and adjust stop to breakeven. I can always get back in once I have built a profit cushion.

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Daily Profit Targets

I have a daily profit target of 10-20 cents per day out of the market. By setting the bar low, I'll make it easier for me to be profitable.

10 shares x 10-20 cents = \$1-2.

100 shares x 10-20 cents = \$10-20.

1000 shares x 10-20 cents = \$100-200.

10,000 shares x 10-20 cents = \$1,000-2,000.

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A characteristic of profitable traders is taking the profit and closing up for the day!

Walk away sooner! Leave money on the table, but walk away with a little money in your pocket.

This is what profitable traders do.

You have to adopt that approach of capturing quick profits and then getting the heck out of the market before you give it back!

Once you have 6-12mo of experience with profitable trading, you'll be able to trust yourself to occasionally over trade during a hot market. As a beginner, you will not have the experience to make good decisions, therefore you must revert to simply shutting down as soon as you have profit near your daily goal.

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9/10 traders lose money

They lose not because they don't have winners, but because they lose more on losers.

Get your profit and shut it down.

Respect the fact that you are a beginner. Even if you trade with only 100 shares and make only \$10-20/day with a commission free broker, you are laying a foundation that you scale to 1,000 - 10,000 trades in the future.

Don't blow your opportunity to become a profitable trader by being impatient, putting the cart ahead of the wagon, and losing hard earned money by over trading.

Less is more. Trade real money until you've hit your goal, then flip to SIM for the rest of the day if you really want to continue to gain experience, just don't let yourself switch back. You will regret it if you give in to FOMO and go back to real money after shutting it down!.

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Trading Plan Part 1

Strategy, Price Range & Time of Day.

Max Loss: \$100 - Example 1,000 shares with 10 cent stop, 500 shares with 20 cent stop, 250 shares with 40 cent stop.

Risk Management Strategies: Max loss with broker, max share size, personal rules about when to walk away or go into trader rehab.

Full Size: 1000 shares, doubling to 2k and adjusting stop to breakeven only if I'm already green on the trade.

Profit Target per trade \$100 (10 cents per share)

Daily Profit Target \$200 (ideally getting 20 cents per day profit out of the market with 1000 shares)

When will you stop trading each day? Time and Profit/loss marks.

Trading Plan Goal: to make approx \$500-750/week in a trading simulator while you are practicing.

Number of Trades per day: While you are practicing, you should trade as much as you can. As you prepare to go live, you will want to reduce the amount of trades you take, but for the sake of gaining experience, more is better.

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Trading Plan Part 2

What price stocks will I trade: ____

What float will I focus on: ____

What time of day will I trade: ____

When will I stop trading: ____

What type of entries will I focus on: ____

What type of entries will I avoid: ____

What is my primary strategy: ____

What are my secondary strategies: ____

You will be able to fill in this information as you go through the classes.

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Trading Plan Rules

These are mine (yours will be different depending on which strategy you adopt)

1. Max Loss = -\$2k-5k in 1 day depending on market strength
2. Max # of Consecutive Losses = 3 red trades in a row.
3. Do not trade Large Cap stocks, breakout setups don't work well and I'll lose money.
4. Do not trade 3rd pullback don't trade it at all if I'm not already green on the stock.
5. Do not buy after 3rd halt if I'm not already green on the stock.

Punishment for Breaking Rules = Running 5 miles.

Helpful Tip: Initially, you may have very few rules as you want to practice, that's okay!

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Daily Routine: Maintain your Trading Records

You can maintain trading records in an excel doc and by regularly exporting trades from your broker to TraderVue.

Keeping trading records is critical. This allows you to build up data that you can data mine in the future if you have a slow patch or simply want to improve your trading.

I update my trades in my excel doc while I'm trading and for trades where I added, sold and added back, I use estimated averages. It doesn't need to be perfect.

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Trade in the simulator until you have 1 month of profitability

Prove to yourself that you can choose the right stocks, the right patterns, and consistently come out ahead.

Right now, it's not about how much you make, it's about building consistency and confidence. You're in this class to learn, so do it the right way! Trade in the SIM.

Once you are consistent (profitable) with good accuracy and good profit loss ratios, you can advance to Phase 2 of the Trading Plan.

Towards the end of this course we will discuss the Trading Plan for trading with real money including taxes, account types, and corporate structures.

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When you trade with real money... Too Aggressive vs Fear of Entering Trades

Anytime I feel afraid to pull the trigger it means I'm trading with too much size. The best treatment is to reduce share size. Even trading with 100 shares is acceptable. It's not about making a lot of money, it's about consistency and confidence.

Anytime I'm too aggressive I'm feeling over confident and I need to reduce share size and reduce the number of trades I should take each day.

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Set Realistic Goals & Don't Expect to Never Lose

Remember, losses are the "costs" of this business, it's no different from any other business.

Later in the course we will discuss emotional conditioning. It's a critical skill that will help you become a successful trader. For that reason, you should not trade with real money until you've watched this class. If you are a beginner trader who is not currently profitable, do yourself a big favor and use the Simulator for the next 3 months.

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Survive Until You Thrive

As a beginner trader what should you expect?

Don't expect to be profitable after 1 month of trading in the SIM. Everyone learns at a different speed.

In this market as a beginner, it's just about keeping your head above water. If you keep your head above water long enough, you will learn to swim. I've never met somebody who tried to trade for year and years and didn't eventually get it.

Our job is to speed up the learning curve so you don't have to spend 3-5 years practicing before you start generating real profits.

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If you fail at first, try again

If you need to spend 6 months of SIM until you see the percentage of success and the profit loss ratios required to be profitable, that's okay. It took me YEARS before I became consistent and I wouldn't change it for anything in the world because now I have refined a skill that will carry me through the rest of my life.

As long as you are practicing your trades, and tracking your trade logs, you can gain experience and gain insight about what you need to do to improve your results.

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Final Words of Wisdom

Day Trading requires a high level of discipline and composure in order to make the right decisions under pressure.

The ability to maintain discipline and composure are muscles that will become strengthened the longer you exercise them. Don't be alarmed if at first you struggle!

This is how every professional trader begins, hence why we say to start trading with a paper trade/demo account!!
Why practice or struggle with real money?



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Steps you can take today

These are steps you can take today to start your Trading Plan.

1) Make your trading plan, follow your trading plan..

2) Don't get discouraged if at first you don't see the results you want to see. It took my years to get where I am today. Each month you are trading you gain experience, and become a more intelligent trader.



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PART II: RUNNING A BUSINESS AS A DAY TRADER

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Trading Plan Part 3

How can I minimize my tax liability?

How much of my trading profits will I try to save for retirement?

How much of my trading profits needs to cover my cost of living?

Will I trade in my personal name, an LLC, or an S-Corp?

How will I account for my expenses related to trading?

What will I do if I experience a large loss?

How will I prepare for the inevitable slow periods that come with trading the markets?

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Filing Taxes as a Trader

None of what is discussed today is advice, I'm sharing my experiences with you. This may or may not be relevant depending on your individual situation or where you're located.

I have and will always rely on a CPA to file my taxes because they take responsibility for making sure it's done right. In my early years as a trader, my CPA filing fee was between \$350-450.



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Trader vs Investor

We must declare ourselves as either being a "trader" or an "investor".

In order to qualify as a trader you must make an active trader trading nearly everyday, and spending most of your days studying the markets & trading them.

The courts say you are a trader if:

You spend lots of time trading. Preferably, you don't have a regular full-time job. (My reading is, you can also be a part-time trader, but you had better be buying and selling a handful of stocks just about every day.)

You have established a regular and continuous pattern of making lots of trades (several almost every day the markets are open).

Your goal is to profit from short-term market swings rather than from long-term gains or dividend income.



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Mark-to-Market

Section 475(f) Mark-To-Market Accounting and IRS Form 4797

If you qualify as a trader, you can also apply for Mark-to-Market accounting with the IRS. This is NOT something Investors can apply for. Investors are limited to a writing off not more than a \$3000 capital loss, even if they loss \$100k.

When a Trader applies for, and is accepted for Mark-to-Market accounting we can write off an unlimited amount of losses. This is particularly good during a bad year of trading. The 2nd advantage is that we are exempt from the Wash Sale Rule.

The Wash Sale Rule states that if you take a loss on a stock, and buy back shares of that stock within 30 days, you can't write off the loss. This still applies for investors and non-mark-to-market traders.

You must apply by April 15th for CURRENT tax year or you have to wait.



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Benefits of being a "trader"

As an active trader, I can write off all of my business expenses on a **Schedule C** of my personal income taxes.

These write-offs will reduce my adjusted gross taxable income and can help keep me in a lower income tax bracket.

Examples of possible write-offs: Computer equipment, subscriptions, desk, bookshelves, fax machine, etc. Some traders will use the home office deduction to write off the square footage of his or her house, and therefore write off that % of every house related bill (insurance, maintenance, utilities, etc).



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Self Employment Taxes

In the United States most Day Traders, who have elected for Mark-to-Market accounting, will be self employed traders. They are not limited by the max capital gains write off of \$3000 since they are not a casual investor.

Some traders will incorrectly pay self employment taxes. Short Term capital gains are not considered earned income and only earned income is subject to self employment taxes.

That means day traders are not subject to the 15% self employment tax.

Source See <http://www.journalofaccountancy.com>

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Income Taxes

Short Term Capital Gains (Trades held less than 1 year), are taxed at your regular income bracket rates while long term capital gains are taxed at lower rates. There is an incentive therefore to hold positions longer, but this is irrelevant for us as day traders.

At the end of each year you will receive a 1099 from your broker. They show your total income as your net winners minus losers minus all commissions. It's often a big document that lists every trade. I give this entire packet to my CPA.

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Trading in a Business Account

Some traders will think they should trade in an LLC or an S-Corp. These are actually the two most popular types of business structures. So are there benefits to trading in an LLC or an S-Corp? I'll review both of them below, but for reference, I trade in my personal name, not a business account.

LLC vs S-Corp

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Trading in an LLC Business Account

Disadvantages to an LLC: If I trade with an LLC and it's a single owner LLC then anytime I take money out of the company, those payments to myself are considered "earned" wages, and they are subject to 15% self employment taxes. This is not desirable.

Advantages to an LLC: LLC's are easy to setup and have fewer tax filings than S-Corps. The only real advantage here for a trader is that the money isn't in your own name (if here is perhaps a concern about creditors going after your assets), and you can easily account for trading expenses by using a separate bank account and credit card. If you have a margin call on your LLC trading account, it will be more difficult for the broker to seize your personal assets. Having said that, both of these could be accomplished with an S-Corp.

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Trading in an S-Corp Business Account

Disadvantages to an S-Corp: The primary disadvantage to an S-Corp is the large amount of administrative work required to operate. You have to file corporate taxes, maintain the companies, books, run payroll, apply for a state payroll withholding account, potentially obtain workers comp insurance (even if you are the only employee), file withholding taxes with state and federal gov., and remember if you forget any of them, you get penalized. These are all a headache and is costly, often requiring payroll services accountants, attorneys, etc.



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Trading in an S-Corp Business Account

Advantages to an S-Corp: If I trade with an S-Corp, the company pays me a K1 (distribution of shareholder profits) and should also pay me a "reasonable" W-2 Salary. In this case, I'm an employee of the company and I'm not subject to 15% self employment taxes, although I have to pay payroll taxes and pay into social security. A business itself can opt for Mark-to-Market accounting to write off unlimited capital losses in the event that I make 1mil one year and lose 500k the next.

Like an LLC, it's easy to track your expenses related to trading. The primary benefit of an S-Corp would be if I planned to hire a staff to help me trade and built a traditional office. In this case it would make sense to have a payroll service, withholding accounts, workers comp insurance, etc. This obviously isn't going to be the case for the majority of day traders.

Like an LLC, if you have a margin call on your S-Corp trading account, it will be more difficult for the broker to seize your personal assets.



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Keep It Simple, Stupid (KISS)

Based on all the added administrative, legal, and accounting time, fees, headaches, I trade in my personal name.

I applied for Mark to Market accounting under my personal name so I am exempt from the wash sale rule and I could write off a net loss on the year if I ever had a really bad trade.

The most important thing is that I need to keep track of all my expenses carefully either in an accounting program or a spreadsheet (although realistically it's not that much money I'm spending)

At the end of the year I can total these up and let's say I spent \$5,000 on office related expenses and made \$200,000 in trading profits, I can reduce those profits by \$5k. In this case it doesn't put me in a lower income bracket but I am at least rest assured that I can write off any expenses directly linked to my trading activities.



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Steps you can take today

These are steps you can take today to become a professional Trader.

- 1) Set a meeting to review your specific requirements with an accountant.
- 2) Be meticulous with your trading records and keep copies of all expenses.



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