Developing a trading plan for cryptocurrencies

This is the fifth part of our training lessons on cryptocurrencies trading that gives insight about building a trading plan for cryptocurrencies trading.

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How important is a trading plan?

Cryptocurrencies trading is a more difficult job compared to traditional assets and stocks due to their high volatility and risk involved in them. But you can be profitable if you trade with proper planning and execution. There is a widely known phrase in the trading industry: “plan the trade and trade the plan”.

So it is not only important to plan your trade properly but also its proper execution is equally important. You start with learning the basic skills to analyze the crypto market and individual cryptocurrencies that we have covered in our previous lesson and the other thing you need to consider here is to get rid of emotions which will boost your trading performance.

Emotions, biases and logical fallacies can impact your trading performance. So having a detailed trading plan even before taking the trade helps to avoid these psychological factors and ensure that decisions are not made in the heat of the movement and you already know what you need to do in a particular situation. You can even indulge yourself in overtrading due to overconfidence. So having a trading plan gives you a clear pathway on when to enter and exit from the market rather than making decisions based on your instinct.

There are four phases in building a win-win trading strategy. We will start with planning a trade, then its execution as planned and then will measure performance to improve the trading plan.

Planning a trade

As said earlier, planning everything in advance about a trade you are looking to enter is the first and foremost factor in building a win-win situation. Let’s take a look at a few important factors of planning a trade.

- **Identify a trade**

  The scientific identification of a trading opportunity is more important than anything else. You develop it with your trading experience so it is important to do paper trading for 100’s if not 1000’s of time before jumping into real trading.

During this process, you will identify various trading patterns that have a higher percentage of winning rather than losing. You can not be profitable in the long term if you are following a trading plan provided by someone else because you will not have confidence over it. But when you will develop a trading strategy by yourself you will use it with full confidence.

You need to develop clear SOP’s to enter a trade based on your trading strategy that you have developed using paper trading.

- **Identify stop loss level**

  This is as important as much as entering a trade. You need to evaluate and define your stop loss level in advance even before entering a trade. You can use a support level, trendline or level based on Fibonacci levels we read in our previous trading lessons. A combination of many indicators will best give a strong stop loss level like if a fib level and support level are identified at the same point then a breakdown below this level is worth exiting from the trade. It will differ from trade to trade and also depends on the individual's risk appetite.

- **Identify exit point**

  Identifying the exit point to book profits in advance is also an important part of trading plans. You can identify more than one target but you need to stick to it or even should place orders in advance. Profit is never yours unless you book it. Greed plays an important role while booking profits. Traders tend to not book the profits by assuming that the price will move further in their way but they might end up losing the trade. So, identify the exit points in advance and never look back.

- **Assess risk-reward**

  Assessing risk-reward of a trade before entering into it is an important part of trading risk management. We will discuss risk management in our coming lessons in detail but for now, you need to make sure your trading setup has the ability to make profits several times higher than the loss it might make if stop loss gets triggered. You use stop loss and profit target points to calculate the risk-reward ratio. An ideal risk-reward ratio should be 1-5; meaning that a trading setup has the ability to gain 5 times compared with the loss. But the profitability of a trade should be at least two times higher than the stop loss level. For instance, if you are willing to lose $1 you should be making at least $2 from a trading setup.

Plan Execution

Executing the plan as built earlier is far more important as there are more people who make the plans but only a few of them execute it in its true meanings. Let's take a look into it deeply to ensure you execute the way you planned it.

- **Entering in a trade**

  You should never look to enter a trade when a trading setup or opportunity doesn't fulfil all the rules you have developed while planning it. Follow the rules religiously and you will not only be able to avoid overtrading but will also improve your chances of winning a trade.

- **Place the stops**

  Do not make an exception. Place the stop loss that you have identified while planning a trade. Some traders get lenient here and think about applying stop loss later or totally avoid it. But in order to execute your plan, you need to apply the stop loss right after you enter a trade.

- **Manage stop loss**

  If the trade you have taken has already moved into a positive direction and made some significant move the next thing you need to do is to move your stop loss to the break-even level. But make sure it has already made a good move otherwise the price will keep hitting your stop-loss price.

  Another thing you need to consider here is to never move your stop loss in a hope that it will bounce back if it has broken the support, fib, trendline or any significant move in the wrong direction.

- **Exit trade**

If it has moved to your profit target you should book it right away and avoid being greedy here. If it has moved in a negative direction then exit on stop or even before the stop if price indicates a trend reversal. Never move your stop loss or take profit orders in a hope of saving a trade of making more profits. Stick to your plan and follow it.

Measuring performance and improvement

Measuring performance is an important part of improving your trading plan. You need to keep a record of each of your trades so you can measure the validity of your plan and make necessary adjustments to your trading strategy or trading expectations. You might be giving more weightage to old data in your trading plan but the latest data might be affecting price movement more than the older one then you will be making necessary adjustments to your trading plan. This is only possible when you will maintain a detailed record of your all trades.

- **Note setups**

  Whenever you make a trade you need to keep a record of setups you used to take the trade whether it is profitable or making you lose. Once failed doesn't mean that it will fail always but if the same setup fails several times then you need to stop trading it.

- **Repeat**

  If you have found a setup that has a far higher winning percentage than losing it you should not be shy to repeat it again and again whenever you find it. But again never get lenient about it as you might want to trade other setups that are similar to it but not same.

- **Review**

  If you are continuously making losing trades then you need to go back and not only evaluate your technical and fundamental analysis but you should also evaluate your trading mindset as your emotions or biases might be affecting your trading. Review everything thoroughly, practice more on demo accounts and when you are confident you need to start trading again with real money.

- **Improve**

  Improvement is always possible even if your winning ratio is far higher than losing a trade. you need to identify the areas of improvement by reviewing the price movement before and after the trade. But if you are making losses and have already found the reason for losing it while reviewing you should take this as a challenge and improve it to come back more strongly. If you are lacking in charting skills you should improve it and if you are lacking in market knowledge then you should try to learn more deeply about the market and the asset you are trading to improve your chances of winning.