Volume Four – Your Trading Business

YTC Price Action Trader
by Lance Beggs

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About the Author

Lance Beggs is a full time day-trader with a current preference for forex, FX futures and emini-futures markets. His style of trading is discretionary, operating in the direction of short-term sentiment within a framework of support and resistance.

As an ex-military helicopter pilot and aviation safety specialist, Lance has an interest in applying the lessons and philosophy of aviation safety to the trading environment, through study in human factors, risk management and crew resource management.

He is the founder and chief contributor to http://www.YourTradingCoach.com, which aims to provide quality trading education and resources with an emphasis on the 'less sexy' but more important aspects of trading – business management, risk management, money management and trading psychology.

Lance can be contacted via support@YourTradingCoach.com

"No business in the world has ever made more money with poorer management."

… Bill Terry

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VOLUME FOUR

YOUR TRADING BUSINESS

Chapter Seven – Money Management

7.1 – Ensuring Survival

The highest priority for your business must always be to ensure survival; through both your initial learning period and then throughout your ongoing career.

The only way to fail is to either quit or be forced to quit through loss of funds. Survival must therefore include two elements:

- Financial Survival – preventing drawdown of our account balance to a point which forces us to stop.

- Personal Survival – maintaining the passion for trading, and motivation to continue for as long as necessary.

This chapter and the next will address financial survival. Personal survival will be addressed in chapter 10 when we discuss the psychology of trading.

7.2 - Financial Survival

Financial survival is essential, although not just because of the money. After all, money can be regained from other sources. Financial survival is essential because of the impact loss of funds will have on our psychology. Typically we become very risk averse after having taken a large hit to our finances and our ego. This will make it increasingly difficult to be psychologically capable of effectively trading the markets, in order to recover the losses and move to new equity highs.

We'll aim to ensure financial survival through our money management plan (the remainder of chapter 7) and our contingency management plan (chapter 8).

7.3 – Money Management

To develop our money management plan, we'll look at financial survival from a risk management perspective. What are the risks as a result of trading?

1) Individual Trade Risk - a single trade loss which takes our account to levels which force us to quit.

2) Session Drawdown Risk – a single trading session which takes our account to levels which force us to quit.

3) Business Drawdown Risk - a sequence of trade losses over a longer timeframe resulting in drawdown to levels which force us to quit.

4) Increased Size Risk – an inability to psychologically manage the increased size as our account balance grows, leading to excessive drawdown.

5) Insufficient Income Risk - an inability to maintain lifestyle through lack of income, forcing withdrawal of account funds and our inability to continue trading.

These risks are managed through clearly defined controls within our trading plan.

The following is an <u>example</u> trading plan inclusion. Explanatory notes will follow. As always, feel free to adjust as you see fit (recognising that increased risk increases the likelihood of failure to survive the learning curve).

You'll note that my recommended levels of risk are VERY conservative. The focus in this plan is not on capital growth, but rather on capital preservation during the learning phase. As such, we aim to ensure a low percentage risk at all times.

Once consistently profitable, if you wish to increase risk in search of higher gains then by all means increase the percentages, or do some further research on alternate money management strategies. Do so at your own risk though. The focus (in my opinion) should always be more on capital preservation than on growth.

Individual Trade Risk:

- Position sizing is to be such that maximum risk per trade is to not exceed 1% of account equity.

Trading Session Money Management

- Daily timeout is to occur at 2% drawdown from session highs
- Daily stop is to occur at 3% drawdown from session highs

- Percentage figures are calculated on the weekend as dollar amounts, based on the equity balance as at last week's close.

Business Money Management

- I will stop trading at 20% drawdown.

- I will take this trading halt as an opportunity to review my trading plan, review my trading performance with the benefit of hindsight, and return to a simulation platform until (a) consistent profitability is again proven in that environment, and (b) the account balance has been replenished via other sources.

A Graduated Approach to Increasing Size

- All increases in number of contracts will be (a) preceded by a profitable month at the previous position size; (b) only initiated when our equity balance allows the increase while still maintaining our individual trade risk of 1%; and (c) proven in a sim environment through demonstration of a profitable week of trading.

- If a session stop is hit, I will consider the need for a return to the previous size and/or sim environment. If two session stops are hit, with no intermediate equity high, I must return to the previous size.

Income to Maintain Lifestyle

- I am not in a financial position to allow full-time trading, however my work has accepted a reduction to a 20 hour per week part-time position. This, plus my wife's income, is sufficient to cover our expenses and maintain our current lifestyle.

- I will not transition to full-time until my trading has developed to a level which can regularly provide the equivalent of twice my working income, in order to allow for capital growth and income needs.

- This structure allows me to daytrade the forex markets from the 0800 GMT UK session open for a period of 3 hours, before attending work. In the evening I will allocate 1 hour for review.

Figure 7.1 - Example Trading Plan Inclusion – Money Management

Explanatory Notes:

Individual Trade Risk

- Treatments must be applied to our trading plan to ensure that no single loss can threaten the survival of our trading business.
- Individual trade risk will be managed through the use of stop-loss orders and position sizing, such that **individual trade risk will not exceed 1% of equity**.
- Most educators recommend varying levels between 1% and 5%, with the majority recommending 2%. I recommend 1% maximum. 2% is too great in my opinion during the learning process. If you have five full-size losses in a row, which will happen while learning, you've lost 10% of your account. In my experience, this is too great a loss over too short a period of time for new traders, who still have not developed trust in their strategy or themselves.
- Experiment with greater risk if you wish, AFTER having proven consistent profitability. For now, individual trade risk must be no greater than 1% of equity.
- Note: When trading in two part positions, the maximum risk per part must therefore be 0.5% of equity.
- Under no circumstances will you allow a trade to continue past its stop loss point. Price hitting your stop means that either your trade idea was wrong or your timing was wrong. Either way, you need to be out in order to contain any risk.
- *One final word of warning! Please note that limiting risk through the use of stop losses does not guarantee the risk is limited to that amount. In most markets a stop loss order when triggered generates a market order designed to exit you from your position. As the intraday Flash Crash of May 6th, 2010 showed, in conditions of extreme market panic there may not be any orders taking the opposite side of your market order. Significant slippage can occur. A lot of traders lost a lot of money on that day. Be familiar with exactly how your broker executes and manages their orders. And accept that there will always be risk in the markets. Hence the often provided disclaimer that you should only ever trade with money you can afford to entirely lose. That being said, the 1% individual trade risk will provide a significant buffer of safety should you find yourself positioned against one of these extremely rare market events.*

Session Money Management

- Treatments must be applied to our trading plan to ensure that no one trading session drawdown can threaten the survival of our trading business.

  While our 1% maximum individual trade risk will assist here in slowing any rate of drawdown, our session survival can still be threatened through poor personal management. Such examples would include overtrading or revenge trading; desperately continuing to trade when in drawdown in order to salvage something out of the session. This will rarely ever work. Quite likely the initial drawdown is a result of poor market read or negative psychological influences. Our attempts to recover the session will be even further impacted by worse market read and psychological influences, as our perceptual abilities and decision making are impaired through fear of loss.

- **I recommend implementing a 'timeout' at 2% session drawdown.**

  This is fairly small amount, but two full-size losses are a warning that perhaps you're not in sync with the market, or there are some external or internal distracters impacting your ability to execute your plan. Take a short break; then review the session so far. Continue only if you can confirm that the trades were appropriately selected, entered and managed in accordance with your plan; or if you identify errors and correct them.

  Note that 2% drawdown does not just mean two stop-outs. With an active trade management process, many stops will occur with reduced loss. It may take you 2, 3, 4, 5 or even more trades to hit a 2% session drawdown.

- **I recommend implementing a 3% session drawdown compulsory stop.**

  Something is not right. Walk away. Review at a later time. Capital has been saved to allow you to continue next session.

  The figures for 2% session timeout and 3% session stop are of course just recommended. I acknowledge however that they are very tight. You may be comfortable with more risk and may wish to increase these limits. I'd recommend waiting till consistent profitability is proven first. Please though, not more than 3% session timeout and 5% session stop. Take some time out to reassess and start fresh next session.

- Your session P&L must operate with a session trailing stop.

  Do not get off to a great start in this session and then give back all your profits as you trade your way back down to your maximum session stop. Like we do with individual trades, we will implement a session trailing stop.

I recommend the same parameters we use for initial stops. Trail your session timeout 2% below equity highs. Trail your session stop 3% below equity highs.

- An additional session money management feature which I don't use, but which you may wish to consider, is the use of a session target. Is there a dollar or percentage value that you would be happy to pack up and take all profits, rewarding yourself with a break before the next session?

- Rather than calculate new percentage amounts each session, I recommend using fixed-dollar amounts for your trade risk and money management parameters. Each weekend, take the current equity balance, and calculate dollar or point values for your maximum trade risk (1%), the session timeout (2%) and session stop (3%).

- Let's look at an example:

    - Equity Balance $20,000

    - Individual trade risk: $200 (1%) (NB. Trading two parts will require max $100 risk per part)

    - Trading session timeout: Initial timeout at $400 (2%), trailing $400 below session equity highs

    - Trading session stop: Initial stop $600 (3%), trailing $600 below intra-session equity highs

Business Money Management

- Treatments must be applied to our trading plan to ensure that we stop trading at a certain level of drawdown and halt any further erosion of our equity balance.

- **I recommend a stop at 20% drawdown.** At this point, something is not going right. If you want more, then at the absolute most do not go beyond 30% drawdown. Beyond this it becomes more difficult to regain the losses.

- Take some time out to again study this document. Review your trading performance with the benefit of hindsight and return to simulation trading, until consistent profitability is again proven.

- New traders, with small account balances, should use this time out of the markets to replenish their account from other income sources, and should not start trading live again until the account balance is back to its original level.

A Graduated Approach to Increasing Size

- Size can only be increased as allowed by our percentage risk rule.

- As the number of contracts traded increases, you will reach levels beyond which the dollar risk is psychologically more and more difficult to accept. This will act as a source of fear to impact upon your trading results.

- We will therefore implement a graduated approach to increasing size.

- Success at the current size must be proven via at least one month of profitable trading.

- **All size increases must be proven in a simulation environment first.** My preference is to see a profitable week, before returning to the live environment. This may be done via market replay out of hours, in order to speed up the process.

- If a session stop is hit while live trading, you should consider the need to return to the previous size and/or the sim environment. If two session stops are hit, with no intermediate equity high, then you must return to the previous size.

Income to Maintain Lifestyle

- The timeframe to consistent profitability is unknown; varying for each individual. So our financial survival plan needs to be able to last as long as is necessary for us to achieve this goal.

- Too many books offer the suggestion of saving sufficient funds to allow you to survive for at least 12 months of live trading. This implies that 12 months will be sufficient time to achieve profitability. Rubbish. What if it takes you 13 months? What if it takes you 2 years?

- A better plan is to ensure financial survival for as long as is necessary to achieve your end goal.

- Until you have achieved consistent profitability, any funds withdrawn from your trading account to fund lifestyle expenses place your trading business at risk.

- A wiser plan is to therefore structure yourself such that you do not require any trading profits for lifestyle.

- If sufficient alternate income streams are currently available, such as through your spouse's income and investment or business income, then you are free to trade full-time while developing your skills.

- If sufficient alternate income streams are not available, and trading has not yet developed to a level of consistent profitability such that profits allow both capital growth and withdrawal, then you cannot yet trade full-time. It may not seem fair, but the reality is what it is. You need to:

    - Continue working in order to support your family and lifestyle.

    - Identify means of developing as a trader, around your work and life. While this is easier said than done, it can be achieved. Consider options to limit your trading time to a maximum of 2-3 hours per day, such as via longer timeframes (eg. daily charts), or daytrading only the opening session of a currency pair (eg. UK open, or US open) or the open of your favourite emini futures contract. With markets open 24 hours a day, there will be something available at a time to suit you.

The YTC Scalper supplementary ebook may be of interest to you, as it outlines my approach to trading the emini futures, for 1-2 hours per day.

Additional Considerations – Higher Timeframe / Multiple Markets

Higher timeframe traders will usually have multiple positions open at one time. This incurs an additional risk not faced by short timeframe daytraders such as myself – multiple position risk; an unexpected news event or market shock which stops out all positions at once.

- **Multiple position exposure must be limited to no more than 3%.**

- This does not necessarily mean you limit your portfolio to only three positions. You may wish to risk six positions at 0.5% risk per trade. Alternatively you may be willing to add additional positions as current positions move their stop to breakeven or beyond, accepting that there is no longer an account drawdown risk with these trades.

- In addition, take care to ensure that multiple positions are not in highly-correlated markets. A long position in GBP/USD and a long position in EUR/USD, both risking 1%, is really one trade short the USD with a risk of 2%, due to the (generally) high correlation of these pairs. A trade short the YM and short the ES, both risking 1%, is often a single trade short the US index futures with a risk of 2%, due to the high correlation of these markets.

- Unless you actively monitor market correlations and identify suitable conditions for these trades, it's best to just avoid highly correlated markets.

An additional consideration is the need to redefine the term "session". In previous discussion, session timeout and stop limits related to my own daytrading, referring to one trading period, or one day.

For longer timeframe traders this won't be applicable, as your trades will often extend greater than one day. Redefine a trading session to whatever is applicable to your circumstances.

For example, you may wish to define timeout and stop criteria per week.

Money Management – Wrap Up

Some final points to wrap up money management…

There's a great difference between the session stop level of 3% and the business stop level of 20%. Some of you may wish to implement an intermediate level, such as a Weekly or Monthly percentages for timeout and stop. I don't, as I'm typically aware of the fact that something is wrong and am able to conduct a review anyway, despite not mandating any stop levels. However it may be something you wish to consider.

And most importantly… I know some of you will not have sufficient funds to trade with a maximum of 1% risk. If that's the case, then rather than accepting additional risk, I recommend you continue with simulation trading only while saving additional capital, or find a market or timeframe which allows this level of risk. For example, forex traders may wish to consider mini-contracts rather than standard size contracts, or micro-contracts rather than mini-contracts.

Money management can be quite complex if you wish it to be so. My preference is to make it as simple as possible. Avoid all the mathematical models such as "Optimal f" or the "Kelly Criterion". Stick to a simple approach.

The focus for most of you will not be capital growth, but capital preservation during the learning phase. So make it simple and make it safe. Minimise the potential for career-ending drawdown. Stick to a low percent risk model.

Once consistently profitable, if you wish to increase risk in search of higher gains then by all means do some research on alternate money management strategies. I don't recommend it though. For me, simplicity is always the best.

Chapter Eight – Contingency Management

8.1 – Contingency Management

There is one additional area needed to be considered, in order to ensure financial survival of your trading business. I call this Contingency Management.

Contingency Management procedures are documented within my procedures manual, and outline how I will react to ANY potential error or external threat which may impact on my trading results.

The process I use is based upon studies in Threat & Error Management (TEM). If interested, more information on TEM can be found in the article, *"Minimizing Trading Risk through Proactive Threat and Error Management"*, at the following link:

- http://www.yourtradingcoach.com/Published-Articles.html

The following will provide examples of Contingency Management procedures. Feel free to adapt as required for your own business. The process for developing your own procedures is quite straightforward:

1) Identify potential errors and threats
2) Document a treatment which acts to either avoid the error or threat, or minimise risk should it eventuate.

8.1.1 - Contingency Management Procedures

- Evidence of Illness, Stress or Negativity Impacting Trading Decisions
- External Distraction
- Incorrect Order Entry or Incorrect Fill
- Loss of Connectivity (ISP, Computer, Platform) While in a Trade
- Session or Business Drawdown Limits Hit
- Violation of Rules

Evidence of Illness, Stress or Negativity Impacting Trading Decisions

1) If I have live trades, immediately either:
   a) Close the trades and cancel any working orders; or
   b) If positions are in profit, confirm appropriate stop (not < breakeven) and target orders, and walk away.

2) If I have working orders, cancel them.

3) Record details of the occurrence, for consideration during the post-session review.

4) Consider the need for a break, or a relaxation or recovery session, or for cancellation of the remainder of the session.

External Distraction (which can't be ignored)

1) If I have live trades, immediately either:
   a) Close the trades and cancel any working orders; or
   b) If positions are in profit, confirm appropriate stop (not < breakeven) and target orders.

2) If I have working orders, cancel them.

3) Deal with the distraction.

4) Record details of the occurrence, as soon as possible, for consideration during the post-session review.

5) Consider the need for a break, or a relaxation or recover session prior to restart.

Incorrect Order Entry or Incorrect Fill

1) Immediately cancel the order if it hasn't been filled.

2) If the order is filled, rapidly assess the situation.
   a) If analysis indicates potential for the market to move rapidly against the position, EXIT.
   b) Else set an aggressive stop to minimise loss and manage the position to try to work a profitable exit.

3) Record details of the error, for consideration during the post-session review.

4) Contact broker immediately if error is due to a broker-error (incorrect fill).

5) Consider the need for a break, or a relaxation or recovery session.

Loss of Connectivity (ISP, Computer, Platform) While in a Trade

1) Close any open trades and pending orders via whichever of these means is available and quickest:
   a) Connecting to the platform via a backup computer.
   b) Connect to the broker online via their web platform.
   c) Immediately contact the broker via phone and/or live chat.

2) Resolve the issue if possible and continue with the session. If not continuing, conduct the post-session routine.

NOTE: All orders placed into the platform should have an attached stop and target order.

Session or Business Drawdown Limits Hit

1) Immediately exit all trades.

2) Consider the need for a break, or a relaxation or recovery session.

3) Complete the post-session routine.

Violation of Rules

1) If I violate any part of my trading plan, I will do the following:
   a) Do not put on any new trades.
   b) Close trades that should be closed.
   c) Manage open trades until the exit.

2) Record details of the violation, for consideration during the post-session review.

3) Consider the need for a break, or a relaxation or recovery session.

Chapter Nine – Goals & Targets

9.1 – What Win% Should You Expect?

What win% should you expect? This is a very common question. The question should also ask (although never does) what win/loss size ratio (WLSR) should you expect, as your expectancy is a function of both win% and WLSR. (NB. WLSR is average win divided by average loss)

Here are my general thoughts...

This is an easy question for mechanical systems traders to answer, as their historical testing will provide target figures.

It's not so easy for discretionary traders. Your resultant win% and WLSR will be a function of two things - firstly the ability of the strategy to identify higher probability / lower risk setups which can provide a positive expectancy, and secondly your ability to read the sentiment of the market and to enter and manage the trades in such a way as to maximise opportunity.

That is, it's a function of both the strategy AND your personal performance.

This is why honest promoters of discretionary trading strategies are unable, or unwilling, to provide potential customers with an expected win% or WLSR. It's impossible to know the influence of the 'personal performance' part of the equation.

In fact, if they're being totally honest, they should say that there's a greater likelihood of a negative expectancy. After all, for most new traders the 'personal performance' part of the equation will erode any edge that a strategy has, resulting in a consistent net loss.

For the same reason, it's pointless trying to compare with another trader. Their level of performance is completely irrelevant to you, as their ability to trade the strategy will vary from yours. It's a function of their development as a trader, which will of course be different from your level of development.

The only figures that are relevant are your own current win% and WLSR.

Accept whatever figures you're currently getting, and then work towards gradual improvement.

Trade the strategy. Identify your current level of performance. Then implement a Trade-Record-Review-Improve process (chapter 16), working to increase your performance over time. Do not trade in a live market environment until your performance is showing a positive expectancy.

Win% and WLSR are not so much a function of the strategy; the much more important factor is your own level of development as a trader. My strategy works. I can trade it successfully. That doesn't mean anyone else can, without having gone through the process of learning to trade it.

9.2 – Ok… If I Absolutely Must!

Now, having said that any target figures are irrelevant, I know you'll want some figures anyway.

If you absolutely must have something to target, aim for a win% of 65% and a WLSR of 1.5 (average wins 1.5 times the size of average losses), AFTER excluding all breakeven trades.

Or if you don't like those target figures, adjust them to suit your own needs. Typically as the win% increases, the WLSR will decrease, and vice versa. Provided it gives a positive expectancy, it's a good target.

- Expectancy = (win% x average win) - (loss% x average loss)

But as I said, the only figures that are relevant are your own current win% and WLSR. Identify your current level of performance and just aim for gradual improvement.

9.3 – Stats

In order to know your win% and WLSR you'll need to keep accurate stats. This will require a spreadsheet for tracking your win% and WLSR for all trades.

The trading journal spreadsheet which I use is listed at the YTC Resources Page, under the heading Business Management: http://www.yourtradingcoach.com/Trading-Resources.html

I recommend also keeping these stats for subsets of your trade data as well.

- Track stats for each setup – TST, BOF, BPB, PB, CPB.
- If you trade multiple instruments, then track stats for each instrument.
- If you trade different sessions (eg. forex UK and US session), then track stats for each session.
- Track stats by day, Mon through Fri.
- And track stats for any other subset categories which are of interest to you.

Recording and monitoring these statistics over time allows you the following benefits:

- A means to confirm consistency of results and performance, when your win% and WLSR match your historical averages; and
- A warning that something is wrong, when win% and WLSR vary from your historical averages.

I recommend reviewing results on a weekly and monthly basis. Please note though, I recommend you ensure greater than 20 trades in each sample, in order to get reasonably consistent results. If you aren't achieving 20 trades in any particular week, carry those trades over to the next week (ie. this "week" will actually include a fortnight of trade data).

Adjustments can then be made to the way you apply the strategy, in order to improve any stats.

Typically if your win% is less than ideal, the most likely source of improvement will be in examining the quality of your setups. Ensure that the setups are trading with strength and/or against weakness. Ensure that someone is trapped.

Consider maybe limiting your setups to only those that have been producing the best results for you.

And remember, the absolute best setups are those in which someone is badly caught in a losing trade, and desperately needing to get out. Such as any PB or CPB which has broken a previous swing high/low and then reversed, or any BPB. Find someone stuck, and be part of the orderflow that springs the trap on them. Their loss provides you with the quality setups you need.

To improve your WLSR, examine your entry and your trade management / exit plan. Are you typically entering too late? Or are you having difficulty letting part one and/or two run to their targets?

Note: In some spreadsheet applications (such as the one I use) you may find WLSR called Profit Factor.

9.4 – Another Option – For the Consistently Profitable

Another option, but ONLY after you're already consistently positive...

Or maybe you'll prefer to run this in parallel with your individual trade stats…

Track results per session, rather than per trade.

This is what I do now and I find it much more relaxing.

I discovered this from some writing by Don Miller, way back when he wrote for the Trading Markets site.

I aim for the following targets:

- **70% of days are positive**
- **90% of weeks are positive**
- **100% of months are positive**
- **Individual trade results are irrelevant.**

There is great power in adopting this style of target percentages. It takes all the pressure off individual trades. After all, the only thing that matters is a rising equity curve over time, and so if you can end most days or weeks with a positive result, you're going a long way towards ensuring you meet this goal. It also takes the pressure off daily results. 7 out of 10 days are expected to be positive. This allows me 3 days a fortnight in which I expect to lose. Provided I contain the risk, it's not a problem.

Please note that these percentage targets will require a minimum 5 trades per day; and a minimum of 20 trades per week (allowing for public holiday weeks). Any less than this, and carry these trades over to the next day or week, as required.

As mentioned before, this is only to be adopted once you're achieving overall positive expectancy and have therefore got your risk under control. In the meantime, you may wish to use it alongside your tracking of individual trade results.

The Probabilistic Nature of Trading

I find the 70/90/100 goal to be a great way to remind myself of the probabilistic nature of trading.

The following graph (figure 9.1) is taken from an Expectancy Calculator that came with my Trading Journal Spreadsheet.

The horizontal axis shows the number of trades. The vertical axis shows the equity balance. The graph shows a rising equity curve over time, based on a series of randomly generated trade results using the figures entered into the yellow box.

At least that's the usual way of looking at it.

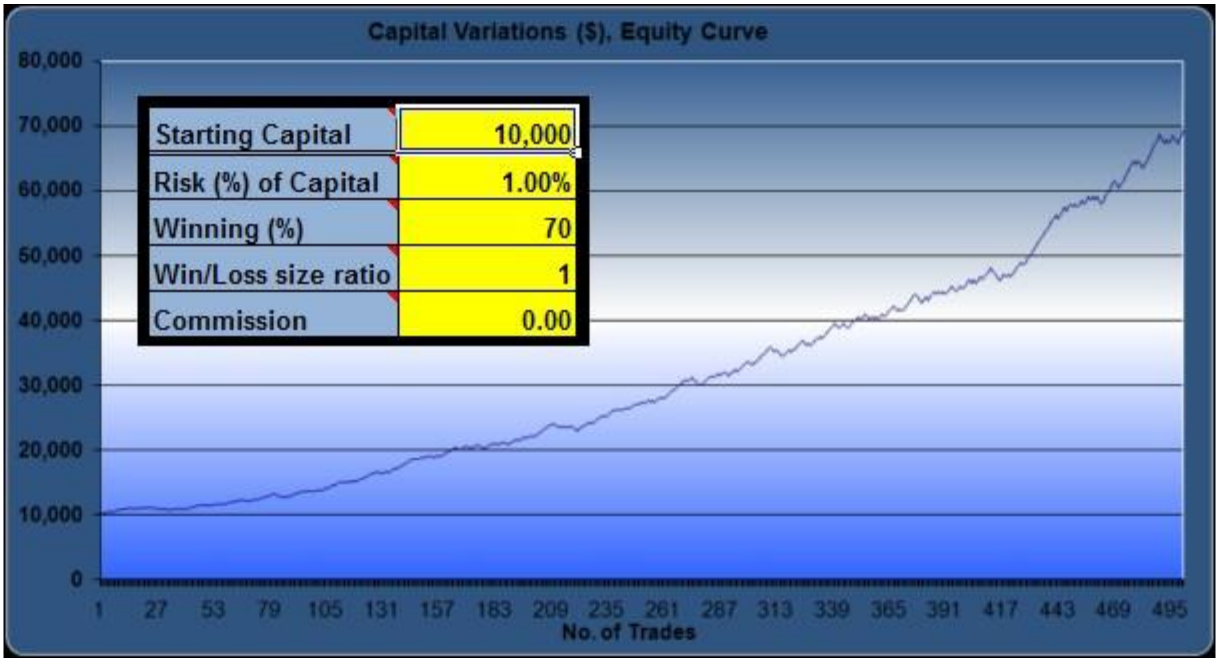

Figure 9.1 – 70% Winning Days – Rising Equity Curve

In reminding myself of the probabilistic nature of trading, I consider the horizontal axis to be the number of days, instead of trades.

So, in this diagram, we see how powerful the results can be when we have 70% winning days, such that the average winning day is the same size as the average losing day.

Individual trade results are irrelevant. Winning the session is what matters. And we don't even have to get that right every time. 7 out of 10 winning days are easily sufficient.

If you don't think that 7 days out of 10 is achievable, what about 6 days out of 10? That's only 3 profitable days per week, where your profits on these days are no bigger than your losses on your losing days.

Here's the equity curve based upon a random sample of trades, using 60% winning days:

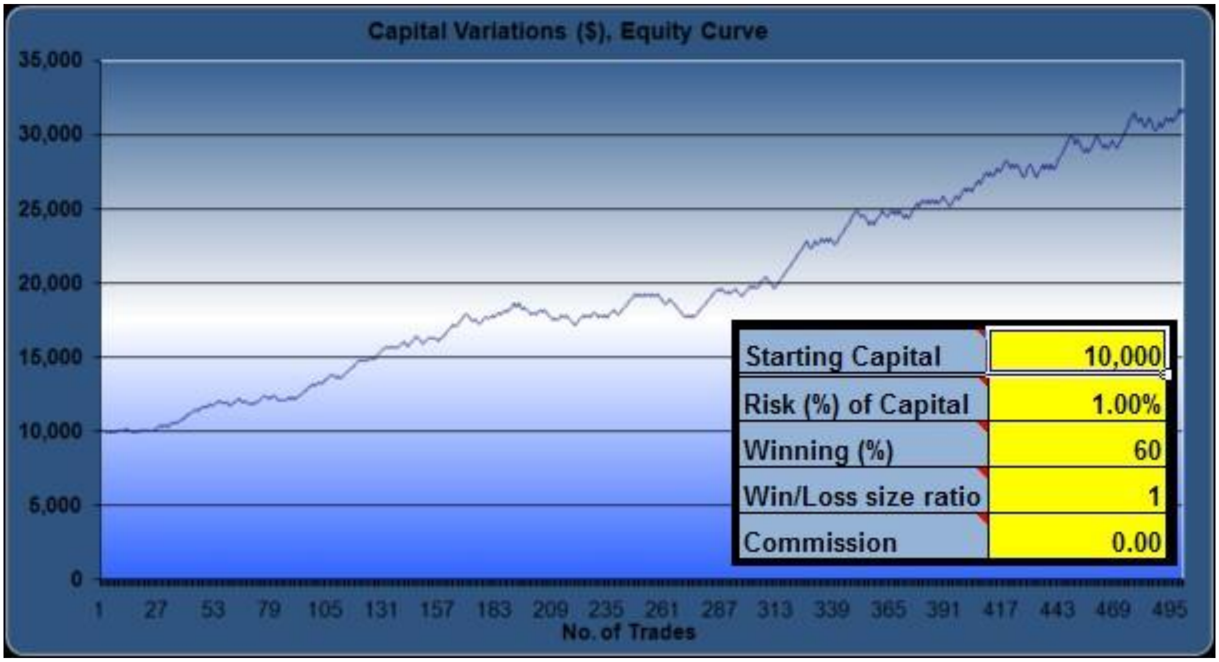

Figure 9.2 – 60% Winning Days – Rising Equity Curve

This reminds me that individual trade results are irrelevant. Even daily losses should not concern me, when they do occur. Provided I can contain risk and overall get more winning days than losing days, my equity curve will rise.

This is a powerful belief; greatly relieving the pressure on individual trades.

Chapter Ten – Trading Psychology – A Practical Approach

10.1 – Personal Survival

We established earlier that the success of our trading business requires both financial and personal survival. This chapter examines personal survival – both throughout the learning process and then our ongoing trading career.

Survival is a result of certain prerequisites being in place (without them you're going to struggle to even get started) and then maintenance of a peak performance mindset.

We will be touching briefly on the topic of trading psychology. A complete investigation of this topic is beyond the scope of this book (perhaps a future book or video course in itself). In particular, we will not cover the background theory – the cause and nature of the various psychological influences on your decision making and actions. While this theory is important, **I prefer to focus in this book on the practical**; sharing the tools and techniques which I use to manage my trading mindset.

10.2 – Prerequisites for Survival

Before we get to the tools and techniques for maintenance of a peak performance mindset, there are some prerequisites that must be in place:

- Realistic Expectations
- Motivation to take Positive Action
- Passion for the Process

Let's look briefly at all three.

Realistic Expectations

You must accept that this is a journey. There is no Holy Grail solution. It's a journey of personal growth and development. And it WILL take time.

It will be easier once we have a graduated plan for our development. We'll put one together in Chapter 17.

However the rate at which you will personally develop towards consistent profitability is unknown. If you already have experience, this book may provide the missing key that has you there in quick time. It may take you only a matter of months. But for the majority, it will likely take a number of years.

Accepting that it's a journey of unknown duration, you need to have realistic expectations. You need to display patience.

Your lifestyle needs to be structured such that success is not required within any deadline, and sufficient income is available for your financial survival throughout the learning process.

Without this, the stress will be too great. And you will most likely not make it.

Motivation to take Positive Action

I use a motivation journal for daily motivational reinforcement. We'll get to that shortly. In terms of prerequisites though…You absolutely must be 100% clear as to why you want to become a consistently profitable trader.

Your *reason why*, or your *purpose*, must be strong enough to get you up each day, excited, ready and willing to face the upcoming challenges.

Anthony Robbins says, "The only way we're going to make a change now is if we create a sense of urgency that's so intense that we're compelled to follow through.

Without a strong and clear *reason why*, I promise you will not make it in this game.

I recommend documenting your *reason why* in one of two ways. Try both, to see which works for you best.

The first option is to use the emotions of **pain and pleasure.**

You need to clearly identify the pain that comes from failure to achieve trading success. And you need to be crystal clear about the pleasure that you will derive from trading success.

Your reasons will change over time; that's fine. For now, ask yourself the following questions:

- "What will it mean for my life and my happiness if I **fail** to put in the necessary work to become a consistently profitable and successful trader?"

  Take some time to think of your response, and write it down.

  Then look deeper. Ask, "What does that mean?", and again write down your answer.

Keep asking, "What does that mean?" until you get down to the very core feelings associated with the pain of failure.

- "What will it mean for my life and my happiness when I succeed, and can call myself a consistently profitable trader?"

  Take some time to think of your response, and write it down.

  Then look deeper. Ask, "What does that mean?", and again write down your answer.

  Keep asking, "What does that mean?" until you get down to the very core feelings associated with the pleasure of success.

If you haven't done this exercise, take a break from reading now, get a piece of paper, and examine your pain and pleasure motivators.

The second option (and the one I prefer) based upon an article titled "The Four Emotions That Can Lead to Life Change", by Jim Rohn. Do a Google Search and you'll find it, if interested.

Jim Rohn says there are four basic emotions which cause people to take decisive action – disgust, decision, desire and resolve.

Add to your previous *reasons why*, a sequence of new statements based upon each of these four emotions. You may get the same response as previously, when using pain and pleasure. That's fine. Sometimes though, you'll find some new insight through approaching the subject from this different direction.

Disgust

There is, in my opinion, no greater motivator than disgust. Absolute disgust at my job will keep me working towards trading success. Absolute disgust at my previous undisciplined attempts to trade will have me moving forward in a more disciplined and businesslike manner.

What is it that you're disgusted with? What is it that you wish to never experience again? What is it that has you saying, "No More! Never Again! Enough is Enough! It's Time to Change!"?

Decision

Life will provide you with many competing priorities. Your time is limited. There is only so much you can do each day.

Make a clear decision - trading is a priority. You will do this. You will do this properly. Document that decision. Put it in writing. And tell everyone close to you.

Desire

Write down a desire statement. What do you want to achieve from trading. There may be some overlap here with the previous *pleasure* statements. Be sure though that the desire statement is one based upon a feeling.

For example, it's not the money that you desire. It's the feeling that this money will give you.

Document your desire. What do you want to achieve from trading? Put it in writing.

Resolve

Resolve to do whatever is necessary to achieve your goals. You've got the disgust to move away from. You've decided to take action. You have the desire to move towards. It's time to resolve to do whatever it takes to make it.

Document your resolve statement.

Resolve to never quit, no matter what comes ahead.

Here's a great quote from Richard Machowicz which you may want to use:

> **"Not dead. Can't Quit."**

Passion for the Process

Armed with realistic expectations and motivation to take positive action, the final prerequisite is a passion for the process of trading.

If you don't enjoy the daily routines, you will NOT survive.

You may hate your previous life, and greatly desire the rewards that come from trading success. You might be motivated for action. But if you don't absolutely LOVE the process of trading, I guarantee you will fail. The motivation, disgust and desire will not be enough.

So, take some time to consider whether or not you really love this game? Do you love the analysis? Do you love the challenge? Are you ok with making mistakes, reviewing your decisions and trading actions, and trying to find the way forward?

Are you willing to make mistakes? Forgiving yourself again and again and again?

If not… perhaps trading is not the right path for you? It's ok. It's best to admit that early, before damaging your financial and psychological capital.

You've seen the strategy. You have a good idea of the degree of work required to conduct analysis and trade the markets. Are you excited by the challenge ahead? Take some time out to confirm your passion for this game.

10.3 – Mastery of Trading Psychology

A negative mindset, and poor trading psychology, does not directly lead to failure. There are a couple of steps in-between. A negative mindset, and its associated focus on fear, will result in poor decision making in an attempt to protect us from that fear. This poor and inconsistent decision making leads to inconsistent application of our plan. And it is the inconsistent application of our trading plan that leads to trading failure.

The process of changing our mindset from one of fear to one of confidence and self-belief will take time. While this is occurring we therefore need a plan to manage our decision making process, to ensure that any negative thoughts or emotions have minimal impact on our trading decisions, providing us with the maximum opportunity for consistent application of our trading plan **despite** our fears.

Our solution involves two main components:

- Focus on Process
- Peak Performance Mindset

10.3.1 –Focus on Process

In this component of our mastery of trading psychology, we aim to maintain our focus on the **process** of consistent trading, rather than on the fear or greed associated with the possible outcome of each trade.

We aim to achieve this focus through the following tools and techniques:

- Documented procedures
- Daily process goals
- Consistent Application
- Review and Improvement

Documented Procedures

Our procedures manual (chapter 13) provides standardisation and consistency in our daily routines, in order to minimise impulsive or unplanned behavior.

Daily Process Goals

There are many widely recognised benefits of goal setting, if used correctly:

- It provides clear direction, both long-term and short-term;
- It provides motivation in the short-term; and
- It provides a benchmark against which you can measure your performance, allowing you to identify and celebrate your successes, and to identify and correct areas of poor performance.

The purpose of this book is not to explain in detail the theory of goal setting. If you wish to do more study in this area then do some research on goal setting as it relates to sports psychology.

The end result of this study though is the discovery that **process goals are vastly superior to outcome goals.**

The difference?

- "I want to earn $500 today"
- "My GBP/USD target today is 50 pips profit"

… are all outcome goals.

They document a specific outcome or level of performance. The problem with outcome goals is that achievement of these goals is largely out of your hands. The market that day may not offer the opportunity for $500 profit, or 50 pips.

Process goals specify the process (or procedure, action, step, task) which must be carried out in order to achieve our desired outcome.

Process goal examples would include:

- "All entries must have an attached stop and target order."
- "For trading today, I will only take entries in the direction of the 5 min trend."
- "Today I will not scratch my part one positions while the NYSE Tick is still moving in my trade direction."

Essentially they involve an action, or a process. An action or process which, if carried out correctly, gives us the maximum chance of achieving a positive outcome. But the outcome is not important. Success in achieving our goals is related to success in following our process, not in achieving any outcome.

During our post-session routine we identify an area for improvement, which we will specifically target in the next session. We assign ourselves a **process goal** (or goals).

The goal is recorded in our trading log, and reviewed as part of the next pre-session routine.

While we may have longer term outcome goals (our reasons why), during the trading session our focus needs to be solely on our process (procedures) and our process goals.

Consistent Application

Of key importance is consistent application.

Your focus will drift away from process, as a result of all manner of internal and external distracters. You need some means of identifying this drift, and returning focus to its rightful place.

Most people find it difficult to maintain focus (including myself). So don't be hard on yourself when you discover your loss of focus. Note it. Correct it. And aim for gradual improvement. Do NOT judge.

I use a simple tool to achieve consistent application. I set a timer to beep on the close of every *trading timeframe* candle, in order to attract my attention. If my focus has been diverted, this allows me to return it to the process of trading, conducting ongoing analysis based on this new candle information.

Review and Improvement

While trading, pause regularly to check your performance, in terms of both your ability to focus on process and your mindset. Use your trading log during the session to record any observations.

Review these notes during your post-session review, and consider the need for a process goal in the next session, to correct or improve any deficiencies in performance.

Use longer period (monthly) reviews to search through your notes for longer-term patterns of poor focus, and consider procedural change to manage this deficiency.

10.3.2 – Peak Performance Mindset

I often get comments from people stating that positive thinking is not the answer to trading – it's about effective strategy.

These people are missing the point.

It's not just about effective strategy, but about effective application of that strategy. And when discussing application, positive thinking is far more effective than negative thinking.

Let's look at some of the tools and techniques that I use for maintaining a peak performance mindset during my trading session.

- Relaxation / Breathing Session
- Visualisation
- Motivation Journal
- Action Affirmation Statements
- Recovery Procedure

Relaxation / Breathing Session

I conduct a relaxation / breathing session during all three phases of my trading day (pre, during and post-session). It's an incredibly powerful means of ensuring a clear mind and relaxed body.

Mind, body and soul in alignment, ready to face the challenges ahead!

You may replace this with any relaxation or breathing process. However if you don't have one, I recommend the following simple procedure:

- Sit on your trading chair, with your feet flat on the floor, arms relaxed by your side, hands resting on your lap, your shoulders comfortably back, and your back erect (do not slump)
    - This should be a relaxed position, not forced.
- Touch your tongue to the roof of your mouth, close your mouth, smile, close your eyes and breathe softly through your nose.
    - Keep your breath natural. Don't force it. Don't try to hold it longer than what is comfortable.

    - Breathe into the lower belly rather than the chest.

    - Make it one fluid motion – inwards and outwards, ensuring no pause between breaths.

- Relax your body.

    - As you breathe, focus on your body. Identify any sources of tension. Use the out-breath to consciously relax those muscles. Repeat until you're completely relaxed.

- Relax your mind.

    - Focus on your breath. Feel the breath entering your body as you inhale. Feel the breath leaving your body as you exhale. If you discover your mind wandering elsewhere, do not judge; simply return your focus to your breath.

    - Some people may prefer to consciously occupy their mind. Count each breath (inhale and exhale combined) from one to ten. Once again, if you find your mind wandering, simply return your focus to your counting.

- Continue for as long or as short a session as you like.

For a more in-depth study of breathing, I recommend the Taoist Longevity Breathing program currently available through http://www.energyarts.com/.

Visualisation

During my pre-session routine, I review my trading log to identify my daily process goal. This also includes a brief visualisation of the process goal being carried out successfully.

So for example, let's assume our daily process goal was, "Today I will not scratch my part one positions while the NYSE Tick is still moving in my trade direction."

- Visualise a trade entry and stall. Feel the unease and the desire to scratch the position. Visualise myself looking towards the NYSE Tick on my chart and observing it still supporting my trade. Visualise myself holding… and the trade moving on to T1. Feel the satisfaction that comes from having successfully achieved my daily process goal.

- Visualise a trade entry and stall. Feel the unease and the desire to scratch the position. Visualise myself looking towards the NYSE Tick on my chart and observing it still supporting my trade. Visualise myself holding. Visualise the stall continuing and the NYSE Tick turning, leading me to scratch the trade. Feel the satisfaction that comes from having successfully achieved my daily process goal – holding the trade to give it chance to move to T1 rather than getting scared out at the first sign of stall.

Note that in both visualizations – winning and losing trade – I successfully followed and achieved my process goal. This is a successful trade, in both cases.

Motivational Journal

A primary **pre-session tool** used in maintenance of my peak performance mindset is my motivation journal.

The motivation journal is simply a folder containing various pieces of text or image material which I find sufficiently motivating; the aim being to ensure I face each trading session with focus and commitment and, most importantly, confidence.

I'll share my contents list below; however feel free to create your own however you see fit. Make it a work in progress, always updating as you find new motivational material.

My motivation journal is a ring binder, allowing insertion of relevant material in the following five sections:

1) **Reasons Why**
   a) My four motivation statements – Disgust, Decision, Desire, Resolve.
      i) You may prefer to use the pain and pleasure statements.
   b) Any additional thoughts as to what trading success means to me.
   c) An image of my family.

2) **Current Reminders**
   a) Any current areas of focus, which need regular reinforcement and reminders
      i) For example, if you're hesitating at entry and having difficulty pulling the trigger, you might write a few sentences as follows:
         - Always remember, each trade is just one of many being traded that month. And each month is just one of hundreds that I'll have over the course of my trading career. So, I will take my entries knowing that it doesn't matter if I win or lose on this trade.
         - My quality, reality-based setups, with reward:risk ratio of at least 1:1 to the first target, combined with my strict application of risk and money management, mean that I have a positive expectance and I will profit over a series of trades.

- Nothing annoys me more than an entry not taken due to fear or hesitation. I'd rather take the small 1R loss than miss the opportunity for >1R profit.

3) Goals
a) My target goals – 70/90/100, as discussed in chapter 9.
b) A reminder of the probabilistic nature of trading
i) Here I insert the 70% winning days diagram from figure 9.1, along with some written notes reminding me that individual trade results are irrelevant.

4) Proof of Success
a) A small sample of printouts of trades in which you performed in a professional manner (winning and losing), annotated with notes.

5) Motivational Material
a) Any statements, quotes, excerpts from books or poetry or songs, or any images which you find motivate you to excel in both trading and in life.
b) Examples:
i) Ziad's motivational passage, from the comments section of the following blog post: http://www.eminiplayer.com/2009/06/learning-to-become-successful-trader.html (an absolutely brilliant passage – I highly recommend this one).
ii) The Warrior Trader principles and Action plan, from "The Way of the Warrior Trader" by Richard McCall.
iii) Optimists Creed – do a Google Search

Affirmation Action Statements (AA Statements)

Affirmations are short, positive statements that you repeat to yourself; typically in an effort to replace any negative self-talk with positive self-talk.

For example, "I am a successful and consistently profitable trader."

While I love this sort of affirmation, and use them myself, they do have some limitations. Especially when the goal of the statement has not yet been achieved! It's hard to believe a statement that you're a consistently profitable trader when you haven't got there yet.

This type of affirmation also offers little benefit during the trading process.

However there is another feature of affirmations which is very useful during the trading process – their ability to focus our mind.

Successful trading is largely a result of taking correct decisions and actions, ensuring we apply our trading plan as accurately as possible. To assist with this, and ensure I focus on the process of trading, I make use of what I call **affirmation action statements**.

These are short statements which provide either a reminder of appropriate behavior, or of an action which should be carried out.

Affirmation action statements are used for all primary areas of the analysis and trade process. They also used when my post-session review has identified an area which requires improved action or behavior in future. The affirmation action statements ensure my mind is appropriately focused, and reinforce correct behavior, as required to improve the application of my trading plan.

I currently have five primary affirmation action statements – Focus; Analysis; Trading; Management; Regroup. Others come and go as required.

You may wish to start with these and then adapt as required. And add any additional ones for areas causing significant difficulty.

Focus

- Breathing (slow and deep)
- Mind clear, body relaxed
- Trust (myself and my strategy)
- Focus

Analysis

- What is the trend?
- Where is the strength?
- Where is the weakness?
- Where is the next opportunity?
- Patience

Entry

- Confirm the weakness (against S/R or on PB)
- Who's trapped?
- Where will they exit?
- Trust (myself and my strategy)
- Fade the weakness! Spring the trap!
- Strike!

Management

- Patience
- Trust (myself and my strategy)
- Where's the strength?
- Where's the weakness?
- Hold while the premise remains valid

Regroup

- Confirm flat
- Clear my mind
- Review the trade
- Review any error
- Accept it
- Forget it
- Focus

Any bracketed text is not verbalised, but is documented in the statement as a reminder of the context.

Repeating these statements to myself ensures my mind is focused on what's important during each critical stage of the analysis and trading process. My actions will therefore be less influenced by doubt, second-guessing or any other negative distracters.

My affirmation action statements are documented as part of my procedures manual, as well as displayed on my trading wall.

Typically I'll repeat them whenever my trading process advances to the next stage – analysis, entry, management etc. The *focus* AA statement is repeated any time my timer interrupts my diverted attention and allows focus to be returned to the process of trading.

In a way, they're like procedures in themselves, although in summary form. Repeated like affirmations though, they focus the mind on the process of trading, rather than allowing it to be distracted by fear.

You'll note also that they're a form of process goals – typically an action, or a reminder of process.

Personally, the Entry AA statement has been particularly effective for me. I've associated the word **strike** with the requirement to place an order. If my analysis has identified weakness and someone trapped in the market, and I've identified a suitable entry zone, then I want to get in. I can't afford to doubt myself and miss the entry.

It's time to trust myself and **strike**!

Recovery Procedure

This is a clearing process, used whenever encountering a significant loss or some evidence of (worse than usual) negative emotions.

It may or may not lead to resumption of trading. That will be a judgment call based upon the circumstances.

Once again I'll provide guidelines based around my procedure, but feel free to use it, adapt it, or create your own from scratch. It needs to be something you own, and you feel comfortable with.

The process involves three stages – relaxation, review and release. The whole process should take only 10-15 minutes.

Relaxation – Body & Mind

- Conduct a standard relaxation / breathing session.
- Conduct a short Chi Gung session.
    - This is a moving meditation session. If you're not trained in or interested in Chi Gung, this step could be replaced with any other soft-form martial arts such as Tai Chi, or a simple guided meditation. The aim is a still and calm mind.

Review

- Consider the nature of the occurrence from the perspective of feelings
    - What feelings led to the decisions that were made, or actions that were taken?
    - How does this make you feel after the event?
        - The key here is to explore your feelings in a non-judgmental manner. Accept them.
- What does this mean? Where is the lesson?
- How will you behave in future when encountering the same circumstances?
- Visually replay the situation with the new improved behaviour. Confirm improved feelings.

Release

- Conduct a standard relaxation / breathing session.
- Forgive yourself.
- Completely let go of whatever happened.
- Review your motivation journal.

Consistent Application / Review and Improvement.

As with our focus on process, my trading timeframe timer will allow an interruption of thought, hopefully trapping any negativity and allowing a return to a positive peak-performance mindset through my Focus AA Statement.

Make use of the trading log for recording any mindset observations or challenges.

And review these notes to identify patterns of behavior which may be impacting results. If you can identify it, you can correct it.

10.4 - Maintenance of Peak Physical Condition

There's one key component still to go in ensuring that we achieve mastery of our trading psychology – physical health.

Too many people are quick to dismiss this; after all, trading is all about the mind not the body.

Remember though, they're both component parts of the one system. Your mind will function more effectively with a healthy body. It's that simple.

There are three components of a healthy body that will impact on your ability to function effectively as a trader, and in fact in all areas of your life:

1) Healthy diet,
2) Regular exercise and
3) Sufficient sleep.

I'm not going to talk about diet or exercise. It's not my specialty and in fact improvements are really simple in concept – eat better than you currently eat and exercise more than you currently exercise.

Of course, while it's simple in concept, it's certainly not easy to do if you have the wrong habits in place. Kind of like trading, I guess.

What I would suggest is that you seek the guidance of a professional to assist in these areas; perhaps a general practitioner or weight loss specialist for diet and a gym membership or personal trainer for exercise. Or join a sports club!

I run and I coach soccer. Find something similar that you like.

Sleep though, is something I am going to talk about. If you think you currently get enough sleep, and are tempted to skip this part of the book, I encourage you to stay. It won't take much time and could in fact be quite valuable. The fact is that very few adults get enough regular sleep. And this **will** impact on your trading performance.

Fatigue Management

Fatigue management is a favorite topic of mine, due to my interest in aviation and in particular aviation safety. In military aviation, in both a training and operational environment, fatigue management is recognized as an essential function of command, in order to minimize risk and enhance operational effectiveness.

The same applies to the management of your trading business. As a trader, fatigue will reduce the quality of your work – your preparation, your market analysis, your trade execution, your trade management decisions, your focus, your patience, your ability to psychologically accept a loss and your ability to stick to the process of trading.

Here's a great quote on the dangers of fatigue, sticking to my military theme.

"Some of the COs were awfully heartless and brutal. A few had no idea about how to command men or judge a soldier's capabilities. Too often they would order young boys to lug a dead weight for miles, and when the young fellows reached the front they would be too exhausted to fight. I have seen them in tears, too tired to struggle on. They furnished an easy target for enemy gunners. More than one frail, green kid got cut down due to such incompetence in officer's ranks.
…PTE Vincent E Goodwin, WWI Diary

Ok, you're not at war and your life is probably not at risk from the markets, but the results can still be devastating.

As a retail trader, you're CEO of your own trading business, as well as the trader. As CEO, are you pushing your trader too far, trying to achieve too much too soon, without sufficient time for rest and recuperation? If so, if not managed properly, the results can be financially devastating.

Life is tough. There are many demands on an adult. For many of us, on top of a full-time job and a full-time family, we decide that we're just not happy and need to work at developing another income stream to replace that job we despise. For varying reasons, often the allure of easy money, we're attracted to the financial markets, and before we know it we're burning the candle at both ends - effectively working at a third full-time commitment.

Being so busy, sleep is the first thing that gets sacrificed.

But how does that affect us, and our trading results?

Let's look firstly at a quote from a publication, '*Beyond the Midnight Oil: An Inquiry into Managing Fatigue in Transport'* published in the year 2000:

"17 hours of sustained wakefulness leads to a decrease in performance equivalent to a blood alcohol content (BAC) of 0.05 per cent. The decrease in performance after staying awake for 24 hours is equivalent to a BAC of 0.1 per cent. A person with a BAC of 0.05 per cent is twice as likely to have an accident as a person with zero BAC, while a person with a BAC of 0.1 per cent is seven times more likely to have an accident."

For those in countries where Blood Alcohol Content is measured differently, in Australia a BAC of 0.05 is the legal limit for driving. So 17 hours of sustained wakefulness, leads to a reduction in performance equivalent to being drunk.

You wouldn't trade drunk, would you, so why would you trade fatigued?

Maybe you wouldn't start trading after being awake for 17 hours – the above example was quite extreme. And maybe in small doses the occasional late night may not be too much of a problem for you. After all, you can catch up on one or two late nights quite easily.

However, if lack of sleep moves beyond the occasional late night and becomes a habit, you WILL experience problems. Cumulative fatigue WILL directly impact your health, your mental well being and your trading performance. And the results won't be good.

The result of trader fatigue is a reduction in ability to focus or concentrate on the task at hand, and a reduction in the quality of your decisions. Both of which lead to inconsistent and undisciplined application of your trading plan processes, the end result being a drawdown in equity. Not good!

How much sleep should we get?

Typical advice is eight hours of uninterrupted sleep per night, however the actual requirements vary per person and may be anywhere from 7 to 9 hours per night for an average adult, with children and teenagers needing even more. Even then, lifestyle can demand further sleep. If you're involved in a physically demanding job or sporting activity, increased sleep may be essential to overcome the rigors of your daily routine and allow your body time to rest, repair and recharge.

The best way to work out your natural sleep requirements, and at the same time identify factors that may be affecting your sleep, is to use a Sleep Diary. For the next month, record the following information each morning:

- The time periods in which you slept in the last 24 hours (eg. 10pm to 6:30am)
- The quantity of sleep (eg. 8.5 hours)
- The quality of sleep - give it a score on a 1 to 10 scale
- Observed symptoms of fatigue or tiredness before bed (eg. irritable and stressed)
- Positive factors affecting your sleep (eg. extra layer of drapes added to keep out first light)
- Negative factors affecting your sleep (eg. had a coffee at 9pm, neighbor's dog barking at 6am)
- How you feel on waking? (eg. didn't want to get out of bed yet)

Ok, it's not too scientific. But it will allow you to identify your optimal sleep duration, and discover factors that are affecting your quality and quantity of sleep.

Fatigue Management for Traders

A general rule I've used in the military which applies well for trading, is that you can consider yourself suffering from acute fatigue if you have experienced any of the following:

- Less than 5 hours sleep in the last 24 hours,
- Less than 12 hours sleep in the last 48 hours, or
- Currently been awake for longer than the amount of sleep you've had in the last 48 hours.

If this applies to you, DO NOT TRADE.

This is not permission to live on such a small amount of sleep. This is just the absolute minimum, which forms your GO / NO-GO criteria for trading.

In addition to this, you need to monitor yourself. The effects of cumulative fatigue especially, can sneak up on you without you being aware. Be on alert for the following symptoms:

- Any physical symptoms such as generally feeling tired, having heavy eyelids or yawning.
- Blank stares at the computer screen (where did those last two candles come from?)
- Mood changes such as irritability or apathy. Seriously, you DO NOT want to talk to me when I'm fatigued!!
- Difficulty in focus or concentration, showing up as a failure to follow your defined trading plan processes. This will often manifest as failure to carry out basic tasks, such as incorrectly positioning your stops, incorrectly setting your position size, or incorrect execution (there's nothing worse than going long when you meant to go short.)
- Difficulty in communication, both in deciding what needs to be said, and in how to say it. This applies not only to direct conversation with another person in your trading environment, but also to online chat, or any other means of communication.
- Difficulty in recording trade and personal performance parameters in your trading log or journal.
- A general lack of motivation.
- And of course, slow and confused market analysis.

These symptoms will of course also show up in tasks and activities conducted outside of trading. Along with another big one – difficulty getting to sleep and/or a restless sleep, as you just can't slow down your mind from its desperate attempt to solve all your problems.

Most important of all though, you need to understand that these symptoms are often difficult to pick up in yourself, and may be apparent to others well before you're willing to admit them. Certainly, my wife seems to 'sense' my irritability and lack of patience, well before I do. And as annoying as it is to be told that you're not very nice to be around at the moment, it's a great indicator of potential fatigue.

If you need to operate with reduced sleep for a period of time, consider not trading, or at the very least seek the assistance of your partner or another person to provide an independent assessment of your behavior, and potential levels of fatigue.

If you find yourself with a sleep deficit, the only way to correct this is to get sleep. The strategic use of caffeine may help for a very short period of time, as does a relaxation or meditation session, but they're not viable long term solutions. The ONLY way to correct a sleep deficit is to get sleep. You need to cut down on non-sleep activities somewhere, perhaps even taking a day off trading.

The following factors though will assist in improving your quality of sleep. Consider implementing them into your normal sleep routine:

- Minimize daily stress and anxiety through relaxation exercises.
- Don't rigidly stick to your fixed bedtime. If you feel tired before that time, go to bed.
- If possible, allow yourself to wake naturally when your body is ready, rather than through the use of alarms. If this is not possible during the week, it should be over the weekend when you don't have to work.
- Have a pre-bedtime routine for 15 or so minutes, in which you relax and allow yourself to wind down. Consider having a notepad in which you write down any thoughts or concerns – they're on paper now, so they'll be there when you get up. You don't need to worry about them till then.
- Declare your intent for a good night's sleep when you first close your eyes.
- Ensure a quiet, dark, comfortable environment. Seek assistance from others in your house, or your neighbours, in minimizing noise that may affect your sleep. Consider the use of ear plugs if necessary, or an airconditioner to drown out external noise. Consider the use of an eye mask, or extra layers of curtains to keep out light. Set a cool but comfortable temperature.
- Ensure no caffeine is taken within the 3-4 hours prior to bed.
- Avoid cigarettes (or nicotine patches) or alcohol prior to bed.
- Ensure regular exercise is not conducted just prior to bed.
- Turn down your phone and answering machine.
- Turn your clock away from you so you cannot look at it during the night.
- And if you can't sleep after 15 – 20 minutes, consider getting up and conducting a relaxing activity until you feel ready for sleep again. Don't just lay there worrying.

- Have a regular 'waking' routine starting with a stretch and a positive affirmation. Get the day off to a great start.

Of course, if sleep difficulties persist, and chronic fatigue begins impacting on your behavior and performance, seek advice from a general practitioner or psychologist.

And please, be sure to make sleeping pills or other medications an absolute last resort, and only under direction from a health care professional.

Sleep is essential for peak performance trading, so give it the priority it deserves in your trading business.

10.5 – Psych Wrap-up

This chapter provided a brief introduction to the topic of trading psychology, outlining the practical tools and techniques that I use on a daily basis to maintain my focus on process, and to maintain a positive mindset.

Remember, a negative mindset does not directly lead to poor trading results. A negative mindset leads to poor and inconsistent decisions and actions, which lead to poor trading results. So, we aim to improve the quality of our decisions and actions, minimising the influence of any negative mindset.

Many people will say that you need to trade without fear. Not possible – you're human. Allow your emotions and feelings to be whatever they will be. Accept them. Take note of them in your trading log. Review them and learn from them. There are great lessons to be learnt from accepting and observing your feelings during your trading session.

10.6 – Additional Study

This chapter has covered many topics which could be expanded to fill a whole series of books. I encourage you to consider this material as an introduction to these concepts and become a student of them through further research and education. In particular, the subjects of goal setting and trading psychology should be considered essential study for all traders.

Chapter Eleven – Trading Platform Setup

11.1 – Trading Platform Setup

How you set up your trading screens will largely be a result of:

1) Personal preference,
2) What degree of customisation your platform provides, and
3) How many screens you have.

I operate with a dual monitor setup, but that is not necessary. One is sufficient. I just prefer LARGER charts showing lots of back data.

However you set it up, I recommend the following… your *trading timeframe* chart must be the primary point of focus. Make it the largest, and if possible central to your field of view. Position it next to your DOM or Order Entry module.

The following is a screen shot of my current setup, and a suggested single-screen setup, but please experiment to find the right setup for you.

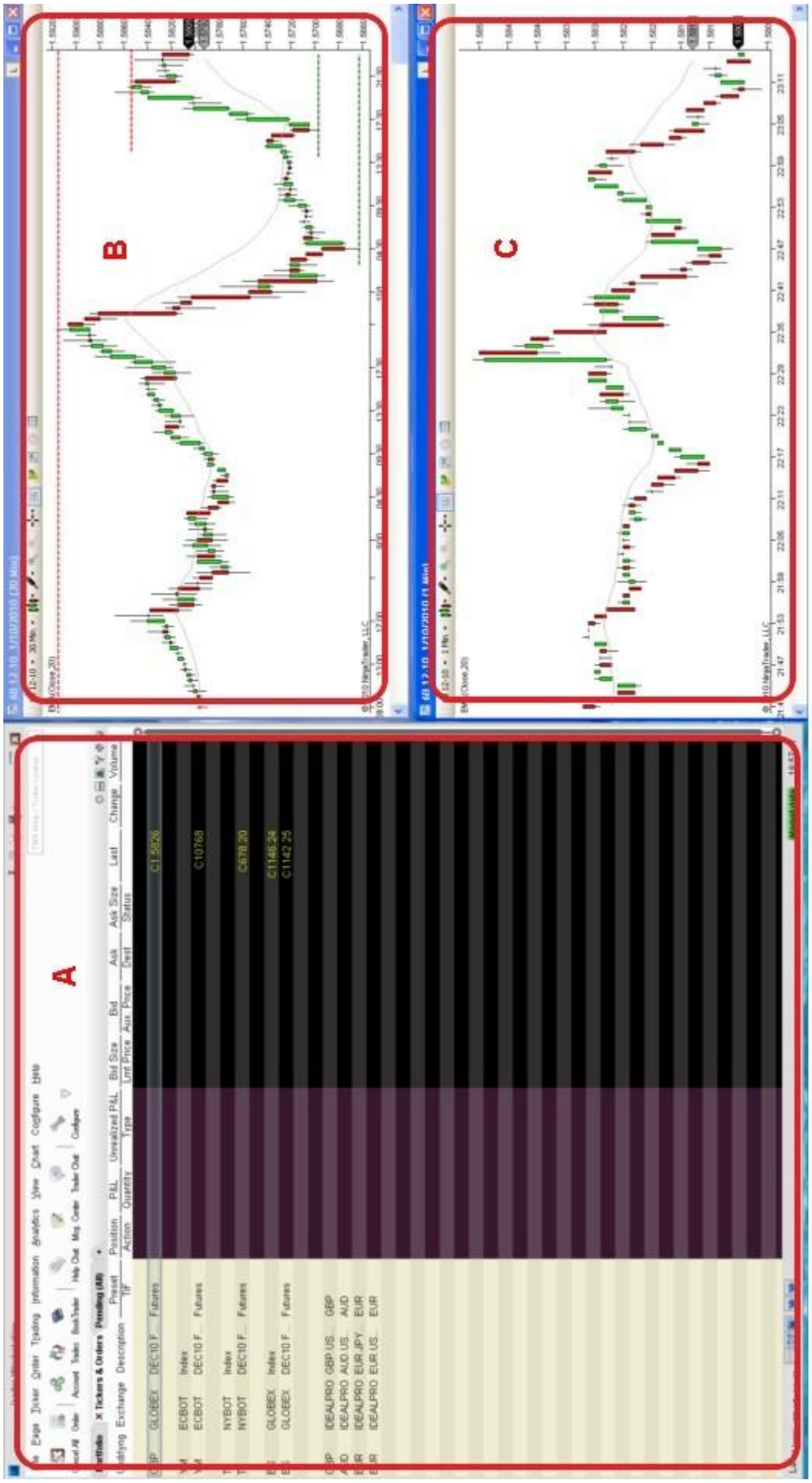

Figure 11.1 - Dual Monitor Setup - Left Side

A = Workstation
B = Higher Timeframe Chart
C = Lower Timeframe Chart

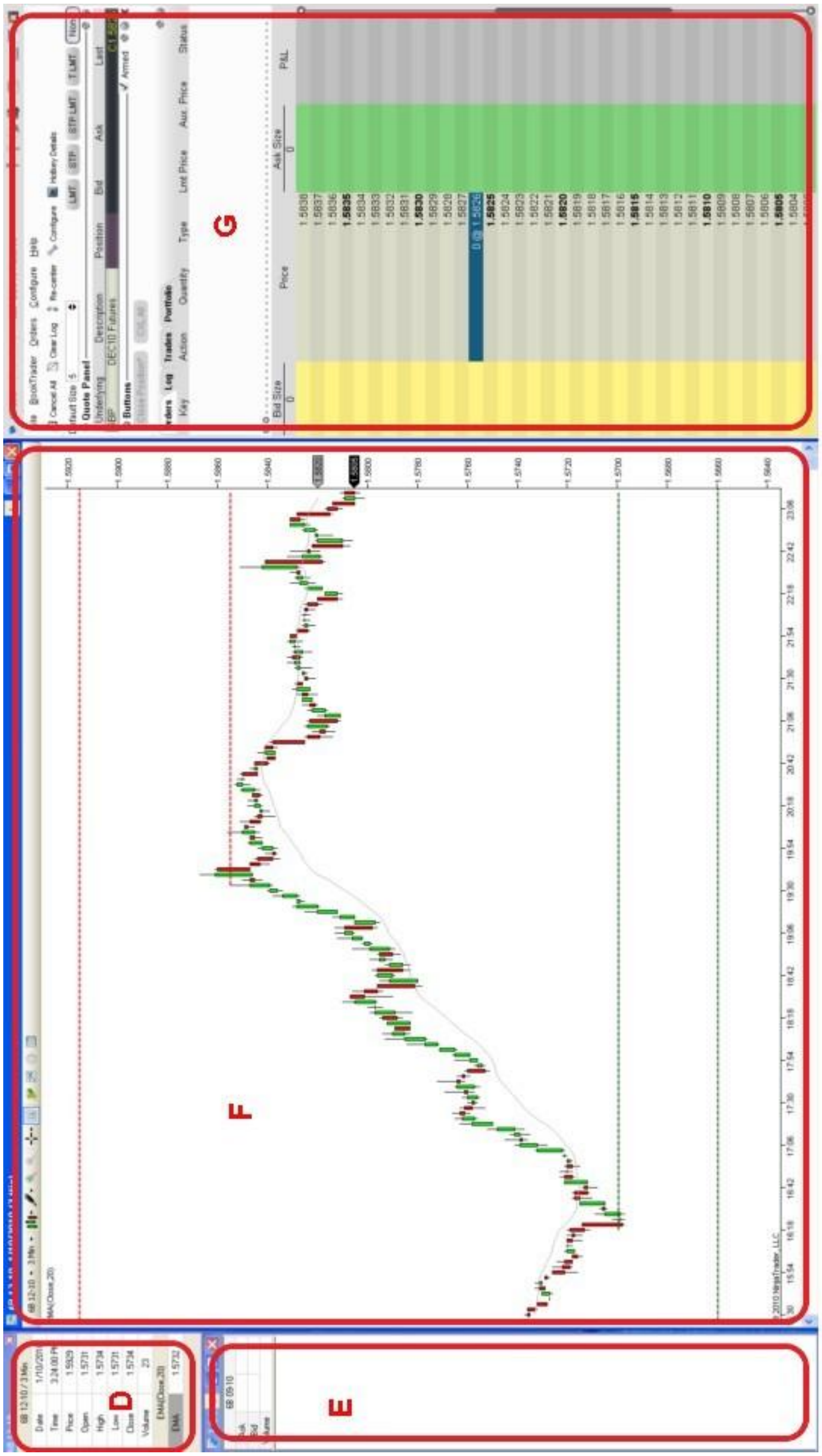

Figure 11.2 - Dual Monitor Setup - Right Side

D = Data Box
E = Time & Sales
F = Trading Timeframe Chart
G = DOM / Order Entry Screen

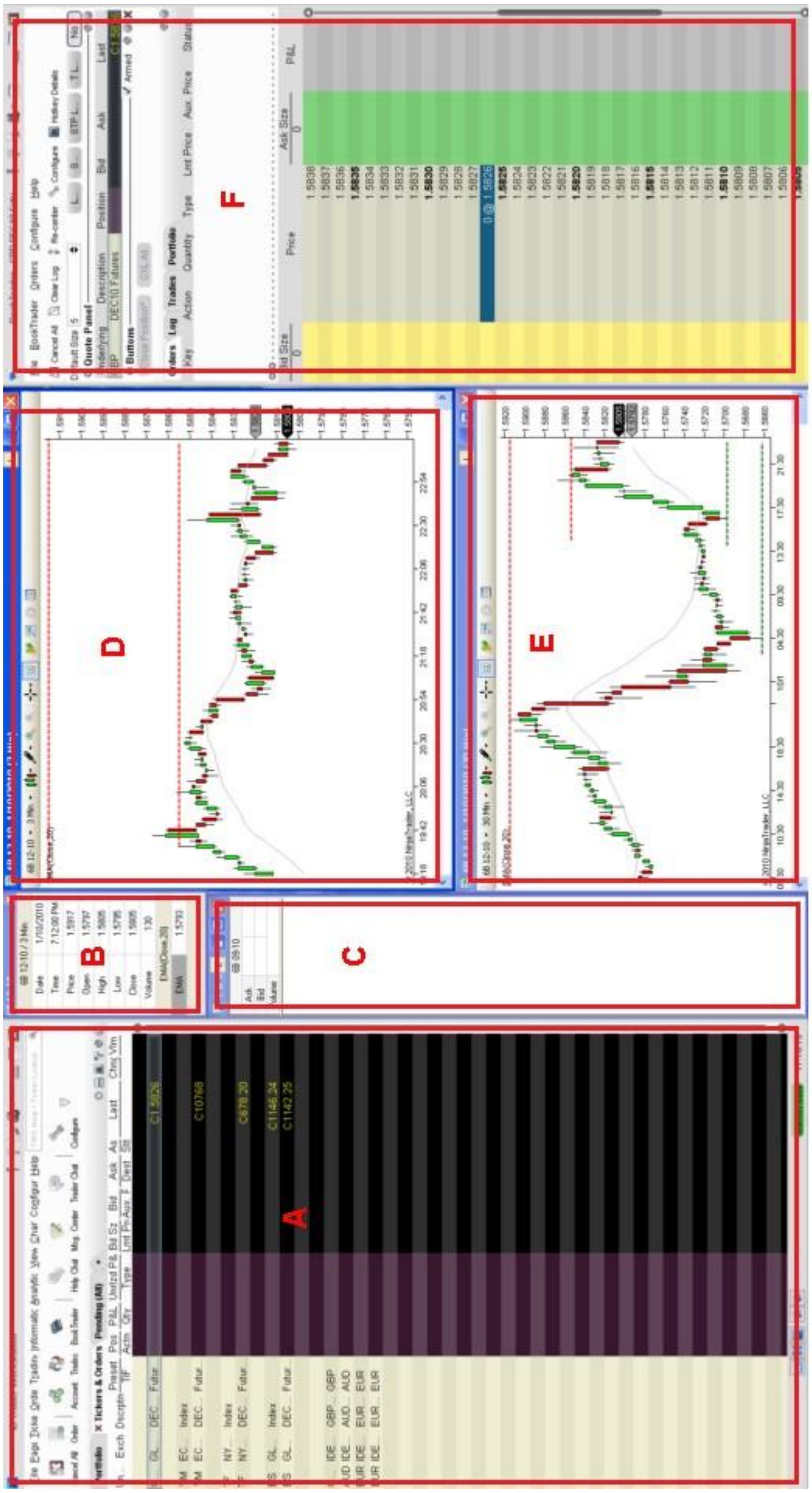

Figure 11.3 - Single Screen Setup

A = Workstation
B = Data Box
C = Time & Sales
D = Trading Timeframe Chart
E = Alternating Higher & Lower Timeframe Chart (as required)
F = DOM / Order Entry Screen

Chapter Twelve – Trading Plan

12.1 - Trading Plan

What is a Trading Plan?

Your Trading Plan is the principal document that guides all aspects of your trading business. If someone else wished to know how you run your trading business, this is the first place they should look. All other documents, plans or procedures are secondary to, and should be referenced by, the Trading Plan.

Creating Your Trading Plan

In many respects, this whole YTC Price Action Trader six-volume series comprises a part of your Trading Plan.

However this is not enough to allow you to start trading the markets.

Everyone's interpretation of the strategy will be unique. And as you work through the trader development stages outlined in chapter 17, you will very likely adapt and modify the strategy to suit your own psychology and trading needs.

Plus, everyone is different with respect to their personal and financial situation, their risk tolerance, and many other personal factors which need to be considered and documented.

You must therefore create your OWN trading plan.

The following sections will provide a general template and explanatory notes. Read through the chapter now; complete the remainder of volumes 4 to 6; and then come back to this section to draft your own trading plan using your word processor. The greater the effort you put into creation of your plan, the greater the potential rewards in your trading business.

I would love to be able to provide a completed plan. Unfortunately that wouldn't work. Your plan must be your own. So feel free to vary the template however you see fit. Remove sections which do not apply to your circumstances. And add additional information as required.

Living Document vs Static Document

Your trading plan should be viewed as a living document. It will grow and evolve, as your level of development grows and evolves. As such, I recommend you implement a regular review of the document to ensure it remains relevant. Prior to becoming consistently profitable, I recommend this review be conducted monthly. Beyond that stage, extend the time out to quarterly and eventually biannual or annual reviews.

Importantly, because your trading plan is a living document, do not stress if you have trouble putting one together at this point in time. Just do the best you can, and it will improve as you develop as a trader, provided you are disciplined with your reviews.

Detailed vs Simple

There is often much discussion and debate about whether a trading plan should be detailed or quite simple. There are pros and cons for both.

I've seen incredibly detailed plans comprising 50+ pages; and others comprising only a paragraph or two.

Whatever works for you is best.

However, I will suggest that during your development phase a single page plan IS insufficient. When you have a dozen years experience behind you then you may not need every aspect of your business documented. Most detail will then be internalised and your plan, while only one page on paper, is actually quite detailed when considering all your trading skills, knowledge, attitude and habits. Until you reach this stage, you need clear guidance. And the only way to do that is to make as detailed a plan as possible.

The problem most people find though is that they create a detailed plan but never refer to it – it's too complex and unwieldy to refer to in the heat of the daily trading battle.

As such I recommend the following:

- A detailed trading plan – produced, not with the intent of being referred to day to day, but because of the clarity that the process of producing this document will provide to you with regards the operation of your trading business.

- A separation of the day to day procedures, into it's own document – The Procedures Manual – which we'll create in chapter 13.

The Trading Plan Template

Section 12.2 provides the template which I currently use. Section 12.3 contains explanatory notes.

12.2 - Trading Plan Template

Cover Page

- Heading
- Next trading plan review date
- Emergency contacts

Preface

- Aim
- Table of Contents

Introduction

- Mission Statement
- Goals

The Trader

- Responsibility
- Current State
- Health
- Further Education

The Trading Business

- Business Management
- Capital Management
- Resource Management
- Operations Management
- Contingency Management
- Review Process
- Trading Plan Review
- Time Management

The Trading Process

- Overview
- Market & Timeframe Selection
- Market Analysis
- Roles and Responsibilities
- Risk and Money Management
- Psychology
- Trade Strategy
- Further Development

Annexes

12.3 - Trading Plan – Explanatory Notes

12.3.1 – Cover Page

Heading

Self explanatory!

Next trading plan review date

Insert the date for your next trading plan review. As mentioned, I recommend initially reviewing your plan on a monthly basis, extending to quarterly and then biannually or annually as your consistency and profitability improve.

Emergency contacts

Enter contact details for your broker, including account numbers and account names and any other relevant details (NOT PASSWORDS). When something goes wrong and you need to contact your broker immediately, you'll be happy that you took the time to include these details on the FRONT PAGE of your trading plan. It will also be included on the front page of your Procedures Manual (chapter 13).

12.3.2 – Preface

Aim

Enter a statement describing the aim of the trading plan document.

Something like, "This plan is intended to document the general principles and strategies that will allow me to produce income from the ___________ markets. It provides the foundation for the Procedures Manual, which details all information for day to day implementation of this plan."

Table of Contents

Self explanatory!

12.3.3 – Introduction

Mission Statement

One or two paragraphs briefly outlining:

- Why are you trading?
- What are you trying to achieve?

Here I recommend documenting your "reasons why", which we discovered when discussing the trading psych prerequisites in chapter 10.

Goals

Business Goals – document your target win% and WLSR, or your 70/90/100 plan, as discussed in chapter 9.

Daily Goals – include a note on the importance of process goals rather than outcome goals, during the heat of daily trading battle. Daily goals must not include any outcome or level of performance.

12.3.4 – The Trader

Responsibility

A statement of personal responsibility!

For example, "I alone am responsible for all trading outcomes. My success or failure is a result of my own decisions and actions. I therefore trade with a focus on managing risk. My number one goal each day is to ensure I survive to trade another day. Only I can ensure that occurs."

Current State

Successful trading requires an understanding and acceptance of our current strengths and weaknesses, in order to maximise our strengths and overcome or minimise the impact of our weaknesses.

List your current trading strengths and weaknesses, and your plan for managing these.

Health

Successful trading requires a healthy mind and body. It's essential to manage your personal health and to ensure a healthy work/life balance.

Outline how you will achieve this under three sub-sections:

- Mind
    - "I will achieve a healthy mind through the following means:"
- Body
    - "I will achieve a healthy body through the following means:"
- Social
    - "I will achieve a healthy work/life balance through the following means:"

Further Education

Consistent trading success requires ongoing education and growth. Outline your plan for further education. What will you currently work on? When? How often?

12.3.5 – The Trading Business

Business Management

Outline your plans for the following:

- Tax or Business Structure
- Accounting / Business Software
- Advisors (ie. accountant, bookkeeper etc)

Capital Management

What funds have you allocated to your trading venture?

Where are they located?

What is your maximum loss limit?

What is your reinvestment plan?

What is your plan for further contributions to your account equity, if any?

What is your plan for withdrawal of funds from your account equity?

Resource Management

List the trading resources you will use in your business, under the following headings:

- Broker
- Charting
- Data Providers
- Journals
    - Chapter 14 will discuss the various logs and journals used in our business.
    - List them here, along with a sentence describing their purpose:
        - Trading Log
        - Trading Journal Spreadsheet
        - Trades Journal
        - Market Structure Journal
        - Lessons Learnt Journal
        - Motivational Journal
- Economic Calendar
    - The economic calendar I use will be kept updated on the YTC Resources Page, in the section, "Business Management:"
    - http://www.yourtradingcoach.com/Trading-Resources.html
- Education Resources
- Additional Tools
    - Timers, screen-capture software etc?

That's all I list. Your business may require additional resources such as:

- News Sources
- Earnings Calendar
- Market Scan
- Back Testing Software
- Portfolio Management
- Instant Messaging

Operations Management

This will simply reference the Procedures Manual. For example:

- The Procedures Manual is to detail daily routines, including all pre-session, during session and post-session routines.

- The Procedures Manual is to detail the recording of trade and trade session stats, within both the Trading Log and Trading Journal Spreadsheet.

- The Procedures Manual is to detail a daily review process, for the purposes of personal growth and development.

Contingency Management

Once again, the trading plan will simply reference the Procedures Manual. For example:

- The Procedures Manual is to detail plans for dealing with any contingency which may occur during the trading session.

Review Process

When will you conduct reviews? How will you do it?

- Daily
  - Market Structure Review
  - Setups / Trades Review
  - Personal Performance Review
- Weekly
  - Trading Performance Review
  - Trading Log Review
  - Personal Performance Review
- Monthly
  - Trading Performance Review
  - Journals Review
  - Trading Plan Review
- Biannual / Annual
  - Goals Review

Reference the Procedures Manual for review procedures.

Time Management

Outline the time that you can commit to your trading business and your ongoing education.

What time can you allocate for trading (including pre and post-session procedures)?

What time can you allocate for your weekly, monthly and longer reviews?

12.3.6 – The Trading Process

Overview

Provide a short overview of your approach to trading. For example:

- I will be trading the YTC Price Action Strategy, with the following amendments:
  - For the current month I am limiting myself to with-trend trades only, due to…(reason)

Market & Timeframe Selection

Which markets are you trading? Why?

Which timeframes are you trading? Why?

Market Analysis

I include here a simple reminder of the importance of price action, and then a reference to the Procedures Manual.

For example:

- Market analysis is to be conducted with a primary emphasis on price action. All indicators are a derivate of price and lag, and shall therefore be considered as decision support tools only.
- The Procedures Manual is to contain a step by step process for conducting market analysis.

Roles and Responsibilities

Optional section – I don't use it anymore, but did once with great effect. We'll talk more about this in chapter 17, when discussing challenges and difficulties.

- In order to minimise the negative psychological impact of *'being a trader who tries to make a profit'*, I will not trade as a trader.
- Instead I will assume the following roles at various times within my trading business:
  - Market Analyst,
  - Order Entry Clerk,
  - Risk Manager,
  - Operations Manager,
  - Trading Coach, and
  - Compliance Officer.
- The Procedures Manual is to assign an appropriate role to each procedural step.

If using this, then you'll need to update the procedures manual to assign the appropriate role to each procedural step. I also recommend including a short job-description for each role within the trading plan.

Risk and Money Management

Risk management – every trade entered in the market MUST have an attached stop loss order.

Money management – include notes as discussed in chapter 7.

Psychology

For me, this section simply references the Procedures Manual:

- The Procedures Manual is to outline routines designed to manage emotions and trade with focus, consistency and discipline.

- This will include a plan for relaxation, a plan for clearing my mind and regaining focus following a trade, and a plan for recovery following any negative occurrence such as a significant error or loss, as detailed in chapter 10.

Trade Strategy

NOTE: This section may be duplicated within your trading plan, once per strategy, to cater for those of you who trade multiple strategies.

Describe your trading strategy. This is a chance for you to summarise the YTC Price Action Trader strategy.

It may be as simple as referring to the summaries I've provided in Volume Six.

However, great benefit will be gained through putting all you've read into your own summary words and diagrams.

You may wish to do so under several headings:

- Principles
- Screen Setup
- Position Sizing
- Analysis
- Setups – Description & Diagram
- Trade Entry
- Trade Management and Exit

Further Development

List areas of focus for further development of yourself and your trading strategy.

12.3.7 – Annexes

Add anything else you wish to add!!!

Chapter Thirteen – Procedures Manual

13.1 - Procedures Manual

My previous career was as a military helicopter pilot. Effective command of an S-70A-9 Black Hawk requires the use of checklists for all standard routines and procedures, in order to minimise the likelihood of error, and ensure maximum 'brain space' available for mission management and maintenance of situational awareness.

Trading is the same. Consistent use of your checklists will minimise the likelihood of procedural error.

Plus, as you become more familiar with your checklists these procedures will require less conscious attention, allowing greater focus on price action in order to remain in sync with the shifting forces of supply and demand (ie. greater SA).

Trading success requires consistent and disciplined application of our trading plan. The best way I know of to turn your plan into disciplined and consistent actions, is to create a checklist of procedures you will follow in applying your plan.

My checklist is documented in a procedures manual.

13.2 – Sample Procedures Manual

The remainder of this chapter provides a **sample** procedures manual.

PLEASE NOTE: This is just an example. Consider using it as a template for creation of your own procedures manual, amending as required to suit your own circumstances and needs.

The procedures manual contains the following sections:

- Trading Plan Summary Details
- Emergency Contacts
- Screen Setups
- Routines
    - Pre-Session
    - During Session
    - Post-Session
- Contingency Management
- Action Affirmation (AA) Statements
- Longer Term Reviews

In most cases, the procedures have already been discussed in previous sections of the ebook series, and will therefore create some duplication in content. However, they've been reproduced here in full in order to demonstrate the format and content of my procedures manual.

The procedures manual is quite detailed, and constantly referring to the manual can be quite distracting (I find that anyway!!). Please persevere though while you're first learning. As you gain experience, the intent is that you won't need to refer to these procedures for every step – they'll become habit. In time, you'll probably be able to operate with a 1-page summary checklist. Eventually they'll become internalised and you can trade without reference to any document.

PROCEDURES MANUAL (Next Review Date:)

Trading Plan Summary Details:

Market(s) Traded:
- 6B

Timeframes:
- 30 / 3 / 1 min

Trading Session:
- 3 hours from the open of the UK session
- 17:00 – 20:00 (my timezone)

Other Details:

Emergency Contacts

Broker:	Primary:	Backup:	Other:
Account Details:			
Phone:			
Online Chat:			

Screen Setups

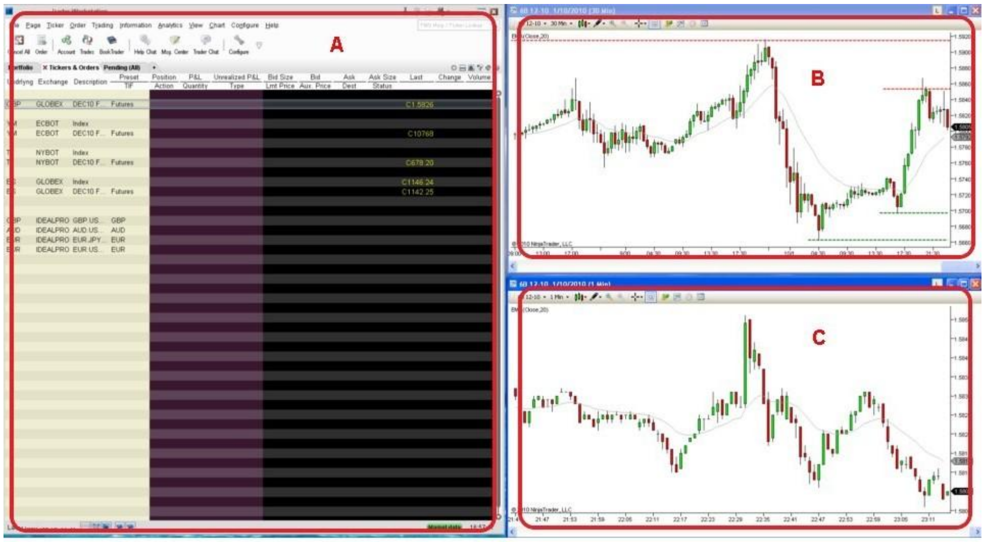

Figure 11.1 - Dual Monitor Setup - Left Side

A = Workstation
B = Higher Timeframe Chart
C = Lower Timeframe Chart

Figure 11.2 - Dual Monitor Setup - Right Side

D = Data Box
E = Time & Sales
F = Trading Timeframe Chart
G = DOM / Order Entry Screen

Routines – Pre-Session

Personal Preparation

1) Initial Check of Physical and Mental Health
   a) If suffering from any ill health or stress, consider the need for cancelling the session, reducing the session, reducing position sizes, or implementing periodic checks of myself and my performance.
   b) Seek independent opinion from _________

2) Physical
   a) Ensure sufficient sleep, in accordance with the 5/12 fatigue management plan.
   b) Ensure sufficient and healthy food intake (sufficient to last till first break)
   c) Fill water bottle and place at trading desk
   d) Conduct a relaxation and breathing session

3) Psychological
   a) Review Motivational Journal

Trading Preparation

1) Platform & Computer Preparation - Part 1
   a) Virus check, clean & restart computer
   b) Open platform with sim account

2) Review the previous session.
   a) Trading Journal & Log
   b) Lessons learnt (from previous session Log)
   c) Sim trade (market replay) any key sequences from previous session
   d) Sim trade - execution drills
   e) Goals recommended for today
   f) Close sim account.

3) Prepare today's Trading Journal and Log
   a) Market
      i) Confirm no contract rollover (next date due: ________)
   b) Session timings
   c) Balance & position sizes
   d) Review Economic Reports
   e) Record daily goals

4) Platform & Computer Preparation - Part 2
   a) Open platform with live account
   b) Synchronise system clock
   c) Set alarms for prior to session start, or any potentially volatile news event I wish to watch prior to session start
   d) Set my candle timer
   e) Confirm order entry / DOM screen is correctly configured - contract, position sizes, order strategy (stop, limit parameters) and one-click order entry

Initial Analysis

1) Define Structure
   a) Define a structural framework within which our trading timeframe price action will move.
      i) Identify areas of Support or Resistance on the higher timeframe (30 min) chart based on swing highs and lows.

2) Define Trend
   a) Assess the movement of past price action within our market structure framework.
      i) Identify significant swing highs and lows on the trading timeframe (3 min) chart.
      ii) Identify the trend direction – up, down or sideways

3) Identify Strength & Weakness
   a) Analyse price movement within the trend to identify signs of strength or weakness.
      i) Analyse momentum of recent price swings
         (1) Compare the momentum of the current price swing with the momentum of the previous price swing in the same direction? Is price faster or slower than before? What does that mean?
         (2) Compare the momentum of the current price swing with the momentum of the previous price swing in the opposite direction? Is price faster or slower than before? What does that mean?
         (3) Is the current price accelerating or decelerating? What does that mean?
      ii) Compare projection and depth of recent price swings
         (1) Increased projection is a sign of potential trend strength. Decreased projection is a sign of potential trend weakness.
         (2) Increased depth is a sign of potential trend weakness. Decreased depth is a sign of potential trend strength.
      iii) Identify signs of failure to continue (ie. failure to meet expectations).
         (1) Failure to continue is a sign of weakness
      iv) Identify signs of strength or weakness via any miscellaneous methods
         (1) Volume analysis
         (2) Market Internal indicators

4) Identify Future Trend Direction
   a) What is the likely path of future price action? Determine the likely path of future price action, in accordance with the six principles listed below.

Six Principles of Future Trend Direction:

Within the S/R framework:

- **First Principle** – We expect an up or down trend to continue in its current state until the next S/R barrier, unless displaying evidence of weakness within the trend.

- **Second Principle** - When an up or down trend shows evidence of weakness, we expect a higher likelihood of a complex correction rather than a reversal, until such time as the market shows both price acceptance and strength in the new trend direction.

- **Third Principle** – A sideways trend within the framework is expected to continue in its current state, unless displaying evidence of strength towards the range boundary.

- **Fourth Principle** - When a sideways trend shows evidence of strength towards the range boundary, we expect a break of the boundary. We observe the behaviour of price post-breakout for clues as to future direction:
  - Weakness following the breakout – the expectation is for a breakout failure and reversal back within the trading range
  - Weakness on the pullback – the expectation is for a breakout pullback and continuation.

At the edges of the S/R framework:

- **Fifth Principle** – We expect a test of our framework S/R to hold, unless strength is displayed on approach to the S/R boundary.

- **Sixth Principle** - If strength is shown on an approach to an S/R barrier, we expect a breakout and watch the behaviour of price post-breakout for clues as to future direction:
  - Weakness following the breakout – the expectation is for a breakout failure and reversal back through the area of S/R.
  - Weakness on the pullback – the expectation is for a breakout pullback and continuation.

5) Visualise Future Price Action
   a) How do you expect price to behave? Visualise the future price action, based upon your expectations for future trend direction and its interaction with the market structure S/R levels.
      i) What price action would validate your assessment of future trend direction?
      ii) What price action would invalidate your assessment of future trend direction?

6) Identify Areas of Trade Opportunity
   a) Based upon your expectations for future trend direction and how it should interact with areas of S/R and swing highs / lows, identify the next potential setup areas.
   b) Areas of trade opportunity are found where weakness plays out against S/R and swing highs / lows (TST, BOF, BPB), or within a trend (PB, CPB).

Steady trend environment:

- Higher Probability
  - PB and CPB

Weakening trend environment

- Higher Probability
  - CPB
  - PB if they break a previous swing low (uptrend) or swing high (downtrend)
- Lower Probability
  - Any other PB
  - Counter-trend TST or BOF of swing high (uptrend) or swing low (downtrend)

Within a Sideways Trading Range with a clear intra-range trend

- Lower Probability
  - PB and CPB

Approaching higher timeframe S/R or range S/R, with no sign of potential breakout

- Higher Probability
  - TST

Approaching higher timeframe S/R or range S/R, with strength showing signs of potential breakout

- Higher Probability
  - BOF or BPB

Final Preparation

1) Final Confirmation Check
   a) Again confirm my physical and mental health.
   b) If suffering from any ill health or stress, consider the need for cancelling the session, reducing the session, reducing position sizes, or implementing periodic checks of myself and my performance.
   c) Confirm again that my fatigue levels are within the limits as defined by the 5/12 fatigue management plan. No trading is to occur if I am classified as suffering from fatigue.

2) Final relaxation and breathing session

Routines – During Session

Maintain a Positive and Focused Mindset

1) Whenever focus has been distracted or minor stress is observed
   a) Log nature of distraction
   b) Office environment – quiet and serene
   c) Sitting – back straight
   d) Quick Relaxation / Breathing session
   e) FOCUS

2) Once per hour
   a) Conduct one or two Chi Gung forms
   b) Quick Relaxation / Breathing session
   c) FOCUS

3) Mid-Session Break (if conducting full session)
   a) Eat a small meal
   b) Full Relaxation / Breathing session
   c) Reflect on the opportunities that the trading day brings
   d) FOCUS

Recovery (Significant Loss or Negative Emotions)

1) Relaxation – Body & Mind
   a) Relaxation / Breathing session
   b) Conduct a short Chi Gung session.

2) Review
   a) Consider the nature of the occurrence from the perspective of feelings
   b) What feelings led to the decisions that were made, or actions that were taken?
   c) How does this make me feel after the event?
      i) The key here is to explore my feelings in a non-judgmental manner. Accept them.
   d) What does this mean? Where is the lesson?
   e) How will I behave in future when encountering the same circumstances?
   f) Visually replay the situation with the new improved behaviour. Confirm improved feelings.

3) Release
   a) Relaxation / Breathing session
   b) Forgive
   c) Completely let go of whatever happened.
   d) Review motivation journal.

Monitor Throughout the Session

1) Regular monitoring
   a) Throughout the session, take time to monitor and record any significant observations regarding:
      i) Market structure and price action movement
      ii) My trading process
      iii) My physical and psychological state

2) When?
   a) At key session times:
      i) Pre-Session, Mid-Session, Post-Session
   b) At key events
      i) After exiting every trade
      ii) After any structural changes
   c) Any other time that I feel I've gained an insight into market structure, my trading process or my physical and psychological state.

Ongoing Analysis

1) Determine Candle Pattern Sentiment
   a) Classify the candle pattern and determine the short-term sentiment of price.
   b) Classify the candle pattern
      i) High / Mid / Low Close
      ii) Bull / Range / Bear Candle
   c) Determine the sentiment of the pattern

2) Consider the Context
   a) Every pattern is unique and MUST be considered in the context of the background market environment in which it occurs.
   b) Where is the current price action in relation to key market structure features:
      i) Support or Resistance
      ii) Trend
      iii) Swing Highs and Lows
   c) What does this mean with respect to the sentiment of the pattern and the potential future price action?

3) Does it Support my Premise?
   a) Is the market action continuing as expected, or is something indicating we're out of sync with market flow? Does the current price action and sentiment support our previous expectations for future price action?
      i) Yes
         (1) Await further price information.
      ii) No
         (1) Decide whether to hold for the next candle, or to reconsider the Initial Market Analysis.
      iii) Unsure
         (1) Wait for further price information.

4) Repeat
   a) Repeat the process as new information appears on the chart.

Trading

1) Trade Preparation

   a) Monitor price movement confirming it matches the behaviour previously anticipated. If price action differs from expectations, return to the initial analysis and recheck premise and assumptions.
   b) Identify trade parameters
      i) Stop loss location
      ii) Targets T1 & T2
      iii) Confirm entry zone
         (1) Consider both LWP (if identified) and LRP
   c) Identify preferred entry plan
      i) Stop and/or limit order
   d) Final confirmation
      i) The setup and trade is valid for this market environment
      ii) Price action is supporting the trade premise.

2) Trade Entry

   a) Monitor price movement bar by bar, until the entry locations are identified. Ensure price continues to support the trade premise.
      i) Determine candle pattern sentiment
      ii) Consider the context
      iii) Does it support my premise

   b) If bracketing price, place a stop entry order at the LWP as soon as it's identified.

   c) If working an entry, place an appropriate order in the market as soon as the entry decision is made.
      i) Limit entry order in area of stall
      ii) Limit or Stop entry order on price action trigger.

   d) Confirm pending order details are correct.
      i) Entry price, direction, size,
      ii) Contingent stop and target orders

   e) On fill:
      i) Cancel other no longer required pending orders.
      ii) Confirm full or partial position filled

   f) Post-fill confirmation (gross error check)

i) How do I feel about the entry?
ii) Confirm the setup and trade are valid for this market environment
iii) Confirm the price action is supporting the trade premise.

3) Trade Management & Exit

a) Continue monitoring price movement bar by bar. Ensure price continues to support the trade premise.
   i) Determine candle pattern sentiment
   ii) Consider the context
   iii) Does it support my premise

b) Part One
   i) While premise remains valid:
      (1) Move the stop to breakeven when we would no longer wish to be in the trade if price retraced to the entry point.
      (2) Move the stop to new levels where we would no longer wish to be in the trade if price retraced to that point.
   ii) When premise is threatened
      (1) Cancel position if immediate exit is required.
      (2) Else work an exit through tightening both the stop and target orders, based upon lower timeframe price action.

c) Part Two
   i) While premise remains valid:
      (1) Move the stop to breakeven when we would no longer wish to be in part two if price retraced to the entry point.
      (2) Move the stop to new levels where we would no longer wish to be in part two if price retraced to that point.
   ii) When premise is threatened
      (1) Cancel position if immediate exit is required.
      (2) Else work an exit through tightening both the stop and target orders, based upon lower timeframe price action.
   iii) When market shows increased strength
      (1) Consider extension of T2 or replacement with a trailing stop.

d) On partial exit
   i) Confirm order correctly filled.

e) On total exit
   i) Confirm flat.

4) Post-Trade

   a) Reconfigure order entry screens or DOM.
   b) In the event of a loss:
      i) Consider the need for a recovery process.
   c) Is price setting up for a possible re-entry or subsequent setup?
      i) Delay any trade log entries and prepare for the new trading process.
   d) When time permits:
      i) Update trade log.
      ii) Monitor and record significant observations:
         (1) Market structure or price action.
         (2) My trading process.
         (3) My physical and psychological state.

Routines – Post-Session

Immediately After

1) Relaxation and Breathing Session *(quick - 2 to 3 minutes max)*

2) Administration *(approx 5 mins)*
   a) Export transactions from broker
   b) Confirm my trade log matches the broker's transactions
   c) Complete any post-session trading log and spreadsheet entries
   d) Print charts and mark the trades *(usually completed during session, if it allows time)*
   e) Review P&L
   f) Update calendar with Green/Red profit or loss indicator

3) Trading Session Review *(approx 45 mins+; document any significant findings in the Trading Log under the heading Trading Session Review)*

   a) Market Environment Review
      i) With hindsight, how would you define the market environment?
      ii) How successful were you in identifying the market environment during the trading session?
      iii) What signs were present to indicate this environment?
      iv) What key pattern features were present and how could they have been used to identify the market trend and bias?
      v) Step manually through the chart bar by bar, or use a market replay feature to step through the chart at high speed, observing the market environment and the signals that identify that environment, trend and bias.
      vi) Print the chart and add appropriate notes to your Market Structure Journal.

   b) Trades Taken
      i) With the benefit of hindsight, was your trade based on a valid setup for that market environment?
      ii) If this was a valid trade:
         (1) Review the signals that led you to identify the trade opportunity?
         (2) What was the ideal entry point? How does that compare to your entry? What signals (if any) did the market provide, which could have led to an improved entry?

(3) Was the initial stop location appropriate? Was it in accordance with your trading plan? Where, with the benefit of hindsight, should the stop have been placed? What signals (if any) did the market provide to identify that location?
(4) What was the optimal trade management strategy, in order to minimize risk when wrong or maximize gain when right? How does that compare to your trade management strategy? What signals (if any) did the market provide for moving the stop to breakeven, or beyond?
(5) What was the optimal exit location or locations, in order to minimize risk when wrong or maximize gain when right? How does this compare to your exit location? What signals (if any) did the market provide to identify this ideal exit location?

iii) If this was not a valid trade:
(1) What signals were present that should have led you to avoid that trade?
(2) Having got into the trade, was the initial stop location appropriate? Was it in accordance with my trading plan? Where, with the benefit of hindsight, should the stop have been placed? What signals (if any) did the market provide to identify that location?
(3) What was the optimal way to manage this trade, in order to minimize risk when wrong or maximize gain when right? How does that compare to your trade management strategy? What signals (if any) did the market provide for moving the stop to breakeven, or beyond?
(4) What was the optimal exit location or locations, in order to minimize risk when wrong or maximize gain when right? How does this compare to your exit location? What signals (if any) did the market provide to identify this ideal exit location?

iv) Replay that portion of the trading session, making optimal decisions for valid trades and avoiding invalid trades, either by stepping manually through the chart bar by bar, or use a market replay feature.

c) Trades Missed
i) With the benefit of hindsight, where were the valid trade opportunities that were missed?
ii) For each of these trade opportunities:
(1) What signals did the market provide that should have alerted me to the trade setup?
(2) What was the ideal entry point? What signals (if any) did the market provide, which could have led to identify this ideal entry?
(3) Where, with the benefit of hindsight, should the stop have been placed? What signals (if any) did the market provide to identify that location?
(4) What was the optimal trade management strategy, in order to minimize risk when wrong or maximize gain when right? What signals (if any) did the market provide for moving the stop to breakeven, or beyond?

(5) What was the optimal exit location or locations, in order to minimize risk when wrong or maximize gain when right? What signals (if any) did the market provide to identify these ideal exit locations?

iii) Replay the trade, making optimal decisions, either by stepping manually through the chart bar by bar, or use a market replay feature.

d) Summarise this session's performance in the trading log.

4) Physical and Psychological Performance Review *(approx 2-3 mins; document any observations in my trading log under the heading Performance Review)*
   a) Were my fatigue levels appropriately managed?
   b) Was I in optimal physical condition? What can I do to improve?
   c) Was my ability to sustain focus at an acceptable level? What can I do to improve?
   d) Was I accepting of emotion during the trading session, without letting it unduly influence decision making? What can I do to improve?
   e) Was my mental state during trade execution one of confidence and self-belief, or one of fear? Why? What can I do to improve?
   f) Am I satisfied with my performance during this trading session? What can I do to improve?
   g) Do I feel I am making progress in my trading performance from day to day? What can I improve?
   h) Write summary notes.

5) Next Session Preparation *(approx 2 to 3 mins; document in my trading log under the heading Next Session)*
   a) Document any goals for the next session

6) Final Relaxation and Breathing Session *(quick - 2 to 3 minutes max)*

7) Completely let go of whatever happened during the trading session

Before Bed

1) Relaxation and Breathing Session *(quick - 2 to 3 minutes max)*

2) Visualisation of success - achievement of my outcome goals

3) Completely let go of whatever happened during the day

Contingency Management

Sources of Threat & Error:

- Evidence of Illness, Stress or Negativity Impacting Trading Decisions
- External Distraction
- Incorrect Order Entry or Incorrect Fill
- Loss of Connectivity (ISP, Computer, Platform) While in a Trade
- Session or Business Drawdown Limits Hit
- Violation of Rules

Evidence of Illness, Stress or Negativity Impacting Trading Decisions

1) If I have live trades, immediately either:
   a) Close the trades and cancel any working orders; or
   b) If positions are in profit, confirm appropriate stop (not < breakeven) and target orders, and walk away.

2) If I have working orders, cancel them.

3) Record details of the occurrence, for consideration during the post-session review.

4) Consider the need for a break, or a relaxation or recovery session, or for cancellation of the remainder of the session.

External Distraction (which can't be ignored)

1) If I have live trades, immediately either:
   a) Close the trades and cancel any working orders; or
   b) If positions are in profit, confirm appropriate stop (not < breakeven) and target orders.

2) If I have working orders, cancel them.

3) Deal with the distraction.

4) Record details of the occurrence, as soon as possible, for consideration during the post-session review.

5) Consider the need for a break, or a relaxation or recover session prior to restart.

Incorrect Order Entry or Incorrect Fill

1) Immediately cancel the order if it hasn't been filled.

2) If the order is filled, rapidly assess the situation.
   a) If analysis indicates potential for the market to move rapidly against the position, EXIT.
   b) Else set an aggressive stop to minimise loss and manage the position to try to work a profitable exit.

3) Record details of the error, for consideration during the post-session review.

4) Contact broker immediately if error is due to a broker-error (incorrect fill).

5) Consider the need for a break, or a relaxation or recovery session.

Loss of Connectivity (ISP, Computer, Platform) While in a Trade

1) Close any open trades and pending orders via whichever of these means is available and quickest:
   a) Connecting to the platform via a backup computer.
   b) Connect to the broker online via their web platform.
   c) Immediately contact the broker via phone and/or live chat.

2) Resolve the issue if possible and continue with the session. If not continuing, conduct the post-session routine.

NOTE: All orders placed into the platform should have an attached stop and target order.

Session or Business Drawdown Limits Hit

1) Immediately exit all trades.

2) Consider the need for a break, or a relaxation or recovery session.

3) Complete the Post-Session routine.

Violation of Rules

1) If I violate any part of my trading plan, I will do the following:
   a) Do not put on any new trades.
   b) Close trades that should be closed.
   c) Manage open trades until the exit.

2) Record details of the violation, for consideration during the post-session review.

3) Consider the need for a break, or a relaxation or recovery session.

Action Affirmation (AA) Statements

Focus

- Breathing (slow and deep)
- Mind clear, body relaxed
- Trust (myself and my strategy)
- Focus

Analysis

- What is the trend?
- Where is the strength?
- Where is the weakness?
- Where is the next opportunity?
- Patience

Entry

- Confirm the weakness (against S/R or on PB)
- Who's trapped?
- Where will they exit?
- Trust (myself and my strategy)
- Fade the weakness! Spring the trap!
- Strike!

Management

- Patience
- Trust (myself and my strategy)
- Where's the strength?
- Where's the weakness?
- Hold while the premise remains valid

Regroup

- Confirm flat
- Clear my mind
- Review the trade
- Review any error
- Accept it
- Forget it
- Focus

Longer-Term Reviews

Weekly:

1) Trading Performance Review
    a) Review trading stats for the week for all trades, and all monitored subsets of trades
        i) Win%
        ii) Win / Loss Size Ratio
    b) Identify and analyse any deficiency or greatly improved performance
    c) Note any observations in the trading log

2) Trading Log Review
    a) Review the trading log for all sessions.
    b) Confirm all significant observations have been recorded in the lessons learnt, market structure and trades journals.

3) Market Replay Session
    a) Conduct market replay of any key trades or sequences of price action.

4) Personal Performance Review
    a) Consider my personal trading performance in the following areas:
        i) Health
        ii) Mindset
        iii) Focus
        iv) Discipline
        v) Attitude
    b) Identify areas for improvement.

5) Develop process goals for the next week.

6) Confirm money management figures for the next week.

Monthly:

1) Trading Performance Review
   a) Review trading stats for the month for all trades, and all monitored subsets of trades
      i) Win%
      ii) Win / Loss Size Ratio
   b) Identify and analyse any deficiency or greatly improved performance.

2) Study new entries in the lessons learnt, market structure and trades journals.

3) Complete trading plan review.

4) Develop process goals for the next month.

Bi-Annual / Annual:

1) Am I enjoying myself?

2) Have I achieved my trading goals? Why? Why not?
3) Are my trading goals still relevant?

4) Have I achieved my *reasons why*? Why? Why not?
5) Are my *reasons why* still relevant?

Trading Plan Review

1) Is my trading plan current? Does it accurately reflect how I trade?
2) What is the strongest part of my trading plan? What can I do to improve it?
3) What is the weakest part of my trading plan? What can I do to improve it? What can I do to minimise the risk or impact?
4) What is the area of my trading plan that I haven't really developed to its fullest potential?
5) Do I really know whether my plan provides a positive expectancy? How do I know?
6) What is one thing I could do right now to improve my pre-trading preparation?
7) What is one thing I could do right now to improve my identification of setups?
8) What is one thing I could do right now to improve my entries?
9) What is one thing I could do right now to improve my trade management?
10) What is one thing I could do right now to improve my exits?
11) What is one thing I could do right now to improve my post-trade review process?
12) What is one thing I could do right now to improve my record keeping?
13) What is one thing I could do right now to improve my longer term reviews (weekly, monthly, biannually)?
14) What is one thing I could do right now to improve my discipline?
15) What is one thing I could do right now to improve my consistency?
16) What is one thing I could do right now to improve my trading psychology?
17) What is one thing I could do right now to improve my money management?
18) What is one thing I could do right now to improve my risk management?
19) What do I fear most in my trading?
20) What am I embarrassed to talk to others about when discussing my trading?
21) What was the low point of the last period? What will I do to prevent that reoccurring?
22) What was the high point of the last period? What will I do to ensure that repeats again in future?
23) How do I plan to improve in coming months?
24) Review the layout of the supplementary journals and logs. Is there scope for improvement?

Chapter Fourteen – Additional Documentation

14.1 – Additional Documentation

In addition to our Trading Plan and our Procedures Manual, we make use of the following documents:

- Trading Journal Spreadsheet
- Trading Log
- Motivation Journal
- Lessons Learnt Journal
- Market Structure Journal
- Trades Journal

For all of these documents, make use of online storage if you prefer. However I find a paper-based system is best for all except the Trading Journal Spreadsheet. This is simply due to the fact that you're more likely to refer to an easily accessible paper-based journal. Your call though!

14.2 - Trading Journal Spreadsheet

This is a spreadsheet, used for recording and analysing your trade statistics. It's an essential tool for analysing your win percentage and win/loss size ratio, for all the subsets of trade data. We spoke about the need for this spreadsheet in chapter 9.

The Trading Journal Spreadsheet which I currently use will be listed on my YTC Resources Page, under the heading of Business Management:
http://www.yourtradingcoach.com/Trading-Resources.html

14.3 - Trading Log

The trading log is the primary document I use on a daily basis for recording anything and everything which occurs pre-session, during session and post-session.

I've trialed different logs in the past – one for trading data; one for psych notes. I've found it's too hard to switch back and forth during the session. I now put everything in one.

I use an A4 size lecture pad, which can then be inserted in a ring binder for archiving, once full.

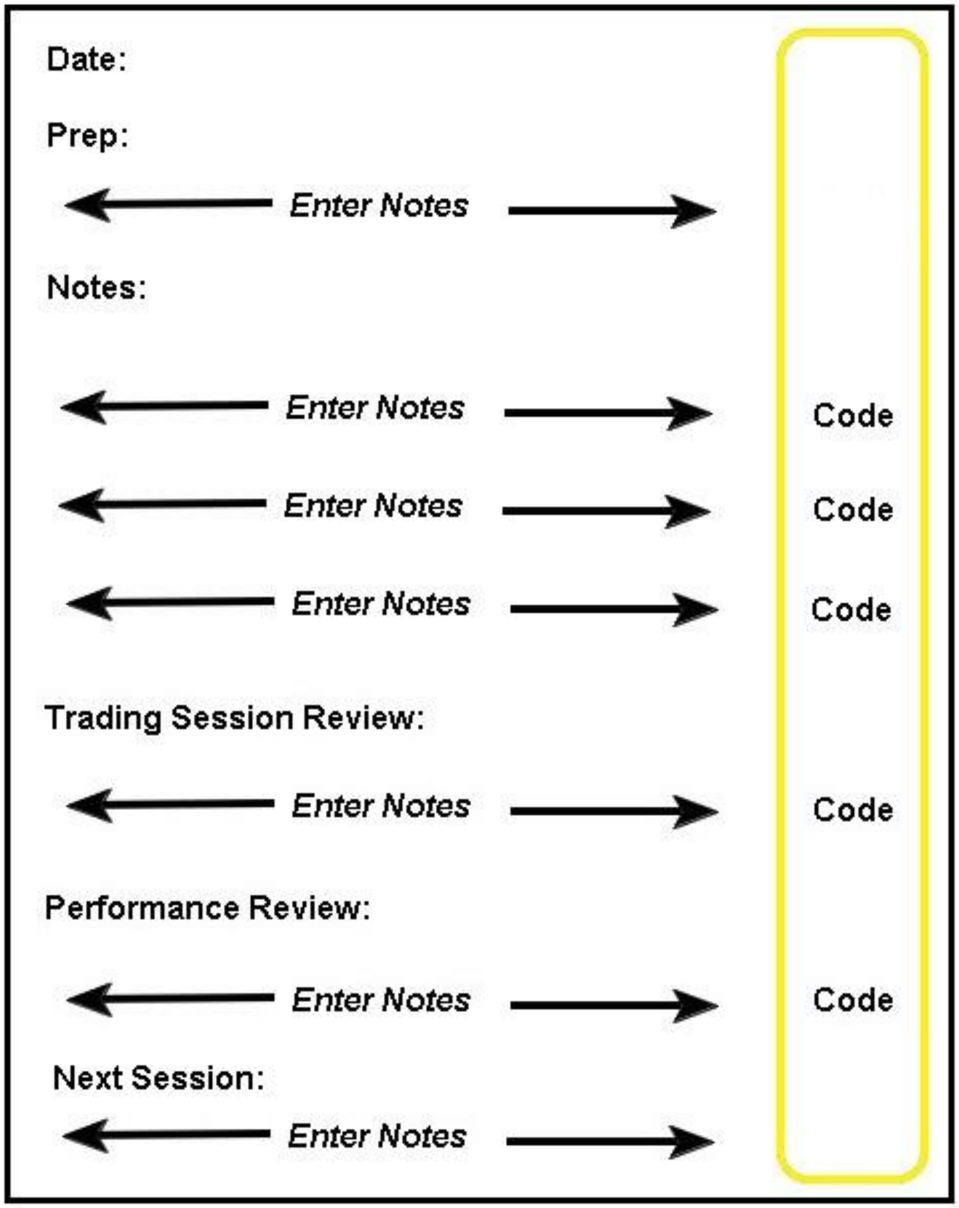

Figure 14.1 – Trading Log

Data is entered under headings of Date, Prep, Notes, Trading Session Review, Performance Review and Next Section, as guided by the procedures manual.

In the margin alongside any Notes or Review text, I place a short code to allow me to quickly identify the nature of this text. Codes are as follows:

- AN = analysis
- TR = trading
- MK = market structure observation
- LL = lesson learnt
- PERS = personal / psych observation
- ? = anything else of potential or unknown significance which needs to be considered during the post-session review

This coding of the trading log entries is not essential, but it makes it easier to find all data related to one topic, amongst the whole session's log entries. For example, if I wanted to review any personal performance or psych observations, I just look for the PERS codes.

The prep section contains any pre-session information, such as date, market, session times, position sizes, key news events etc.

The notes section then contains anything I want to record during the session – key analysis observations such as slowing momentum or expected setups; trade entry parameters such as the entry, stop and target prices; psych observations such as your feelings the time of entry. And naturally, anything I feel should be reviewed post-session and anything which I feel is suitable for inclusion in our market structure, lessons learnt journals.

One final point… I find it beneficial for analysis and trade notes to preface each note with the current time, in case you wish to cross reference the notes with a chart.

14.4 - Motivation Journal

The motivation journal was discussed in detail in chapter 10.

14.5 - Lessons Learnt Journal

The lessons learnt journal is a loose-leaf folder containing the following sections:

- Market Structure
- Price Action
- Setups
- Trade Entry
- Trade Management / Exit

- Psychology
- Business Management
- Learning to Trade
- Miscellaneous

You may prefer to use a spreadsheet or some other form of online document. I have tried that for quite a while; however I found that I was not referring to it very often for study purposes. A paper-based system is preferable simply due to it being easily accessible.

Within each section I simply record ANY significant observation or lesson from the categories. This primarily occurs during the post-session review, but can also occur at any other time such as upon discovering a key lesson while reading a trading book.

Interestingly, you'll find that as you develop in your knowledge and skills, you'll review your lessons learnt journal and discover items that no longer have relevance to the way you trade or to your beliefs about the markets. When that occurs I simply cross them out. No problems!

14.6 - Market Structure Journal

I previously wrote about the market structure journal in a free ebook release, entitled, "The Greatest Trading Book – Ever!"

There was a copy available on the download page for this ebook series.

You can also find it at the YTC ebooks page: http://www.yourtradingcoach.com/ebooks.html

The market structure journal is an incredibly valuable tool for building your intuitive ability to identify the nature of the current market and identify structural changes in real-time.

The best format in my opinion is a folder, allowing loose sheets to be inserted after each trading session.

Print charts for the *trading timeframe*, and use a pen to document any key structural features on the printed price action.

You may prefer to just file each session sequentially, or you may wish to file them in sections, according to market environment:

- Trending / Volatile
- Trending / Non-volatile
- Ranging / Volatile
- Ranging / Non-volatile
- Combination

14.7 - Trades Journal

This is a loose-leaf folder containing printouts of trades.

I did try keeping them electronically for quite a while (saved as a .jpg), but found I was never referring to them. Paper takes up a lot of room, but at least they are easily accessible for review and ongoing learning purposes.

Importantly, there is no need to keep printouts of every trade (unless you wish to). I prefer to only keep those which I feel offer some learning potential – those particularly well managed, and those which were poorly managed.

I prefer to keep this as a separate journal. Sometimes I'm just in the mood to look at some trades!

You may wish to keep them filed sequentially by date, or separate them into sections based upon the setup. I've found I prefer the first. Trial both and find what works best for you.

If you prefer to cut down on the number of separate journals, you have some other options:

- If your trading log is a loose-leaf folder, insert your trade printouts following each session's trade log entries.
- If your lessons learnt folder is a loose-leaf folder, insert your trade printouts in a Trades section.

Resources

Trading Website: www.YourTradingCoach.com
Trading Course: www.YTCPriceActionTrader.com
YouTube Videos: www.youtube.com/YourTradingCoach

'Because You'd Rather Be Trading For A Living...'