INSIGHTS FROM TRADING PROFESSIONALS

Trade planning, measurement & tips to improve performance.

Introduction to this guide

At FP Markets we strive to deliver the best service possible. Our multi award winning customer support combined with the Direct Market Access model we adopt presents a solution which is very attractive for professional traders.

We have built lasting relationships within the trading community and as a result have a wealth of knowledge around what elements make successful traders.

This guide *"Insights from Trading Professionals"* is the latest in our education series. It focuses on key insights we've learned from our expert traders.

We hope it helps take your trading to the next level.

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Discipline = Success

To be a successful trader you need an edge!

Most likely your trading plan already includes a routine that helps you select,construct and evaluate your trades. This guide will go through a set of strategies that are considered as a part of every successful trading plan.

1. How you select your trades.
2. How you construct your trades.
3. How you evaluate your performance.

Our goal is to create a systematic approach that leads to consistent trades. You want to get to a point where even if a trade was a losing trade, you would still be happy with your selection and given the same circumstances you would make the same decision again and again.

SUCCESSFUL TRADERS ARE LIKE ATHLETES.

Successful traders approach trading much like an elite athlete approaches a competition.

Imagine for a moment that you are an elite swimmer preparing for the Australian swimming qualifiers for the Olympics.

You have a lot riding on your performance, so you devise a daily plan. You decide what to do every time you hit the pool; what you will eat and how much you will rest.

Finally, you determine a way to measure your progress.

You hit the pool at 4:30am every day. You follow a number of specific drills. Your coach records videos, times and distances. Once out of the pool, you have a healthy breakfast and meet up with your coach to review all the data gathered from the session and review your swimming technique.

After detailed study of the data you will have a better idea of what you are doing well and what you need to change. You incorporate this to your overall plan and you are ready for the next session.

Trading isn't much different except that you can probably trade for much longer than you can competitively swim.

All good trade plans operate like a routine. If you want to be prepared for the trading day then you need a routine.

1. Selecting what you trade

Many traders will swear by their fundamental or technical analysis. Below is an approach using fundamental and technical techniques. Know the A,B,C of the ideal trade.

A.	B.	C.
The big picture	Stock specific	Know other traders
The Macro events	*The Micro events*	*Psychology of trading*

A. The big picture

The Macro events

Start with an overview of what is going on around the world. Look at any major events. Look at overseas charts, identify trends and consider reactions to major events.

We suggest you bookmark some of the websites below for further market colour.

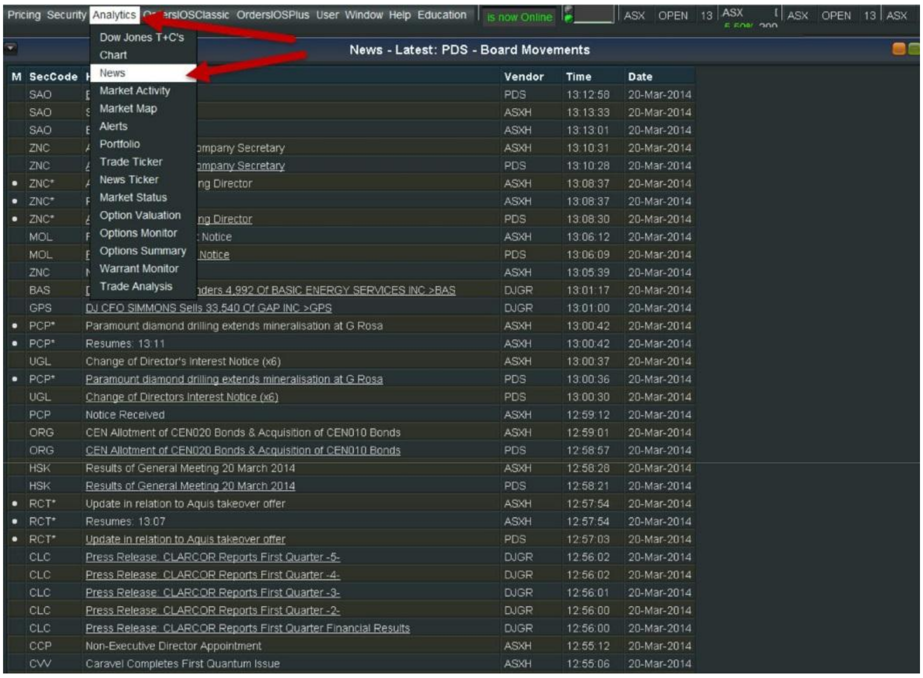
- http://www.thestreet.com/
- http://hotcopper.com.au/
- www.zerohedge.com
- www.upsidetrader.com
- www.thereformrfbroker.com
- http://brontecapital.blogspot.com.au/

IDEA:
FP Markets sends clients a Morning Report with a summary of overseas markets.

ILLUSTRATIVE EXAMPLE: David uses DMA CFD's to trader ASX stocks, AUDUSD and SPI contracts. Given that he is trading on the ASX he pays particular attention to how the US Market traded overnight. David notes down all the major announcements and considers the reaction these announcements will have on the ASX and the Aussie.

It is then time to narrow in on the local market. Create a timetable of major announcements and economic data that is likely to affect the market. This should include:

- Earnings
- AGM's
- Corporate Actions
- Fresh News
- Economic Announcements



Access the most up to date news through the IRESS Trader platform

IDEA:
News can be found easily on FP Markets IRESS Trader platform by clicking on the analytics tab and selecting 'news.'

Now that you have a solid understanding of global and local markets, it is time to anticipate various reactions.

Start by drawing scenarios of any events that could translate into price action.

ILLUSTRATIVE EXAMPLE: David knows that the Reserve Bank of Australia (RBA) is meeting to review the interest rate. In preparation he has prepared a table of scenarios that he believes will translate into price action.

Scenario	Market Reaction	Trades
Decrease rates	This highly unlikely scenario would trigger a sharp market reaction. The decision indicates that the RBA is not worried about inflation. Lower rates would most likely see a sharp drop in the Australian Dollar, a rally in stocks, and a rally in bond/bill prices.	•• Sell AUD. •• Buy SPI. •• Buy stocks.
Steady Rates	A signal that the RBA believes inflationary pressures are not as great as previously thought.	•• Sell AUD. •• Buy SPI. •• Buy stocks.
Increase by 0.25	This is the most likely scenario and may not result in a large reaction unless prices have been moving heavily leading to the announcement. If there is heavy movement then there could be an opportunity to fade the move.	Wait for the reaction. Fade an immediate breakout or wait for a delayed breakout.
Increase by 0.50	We could see a selling opportunity if the AUD has been pushed up strongly in anticipation to the release. If we haven't seen a strong push to the AUD then we could see a rally in the AUD and weakness in bonds and stocks.	Wait for reaction. Most likely we can: •• Buy the AUD •• Sell SPI •• Sell Stocks
Increase by 0.75	This unlikely scenario would trigger a sharp market reaction. This would signal that the RBA is concerned about inflation levels.	•• Sell AUD. •• Buy SPI. •• Buy stocks.

ILLUSTRATIVE EXAMPLE: The RBA keeps interest rates steady. David quickly sells his AUDUSD position and buys a SPI contract. He now looks for opportunities on the ASX to enter into long positions.

B. Stock specific
The Micro events

You should now have a look at the stocks that are likely to receive attention throughout the trading day. In the event of an RBA announcement we would focus on interest rate sensitive stocks, or companies exposed to currency risk.

These stocks will usually have larger price movements and active trends.

It can be helpful to start this process the night before by looking at the biggest movers of the previous session. These stocks often see a follow through on the second day.

PERCENTAGE WINNERS

SecCode	R	Description	Last	+/-	%	Volume	Bid	Ask
TSE	R	Transfield Services	95	15.5	19.5	8,164,055	95	95.5
LYC		Lynas Corporation	31	2	6.9	5,964,520	30.5	31
BSL	R	BlueScope Steel Ltd	625	38	6.47	3,928,811	625	626
BPT	R	Beach Energy Limited	162	9.5	6.23	15,600,876	162	162.5
ACR	R	Acrux Limited	226	13	6.1	1,437,761	226	227
MND	R	Monadelphous Group	1754	96	5.79	532,981	1753	1755
SKT	R	Sky Network	563	30	5.63	309,362	561	563
RRL		Regis Resources	270	14	5.47	3,874,427	269	270
FXJ		Fairfax Media Ltd	94.5	4.5	5	18,568,548	94	94.5
RSG		Resolute Mining	68	3	4.62	3,103,357	67.5	68
EVN		Evolution Mining Ltd	93	4	4.49	3,819,055	93	93.5

Type /XJO in the IRESS Trader quote window to bring up the ASX 200 stocks. Clicking in the top right corner of the % icon will arrange them by positive percentage movement.

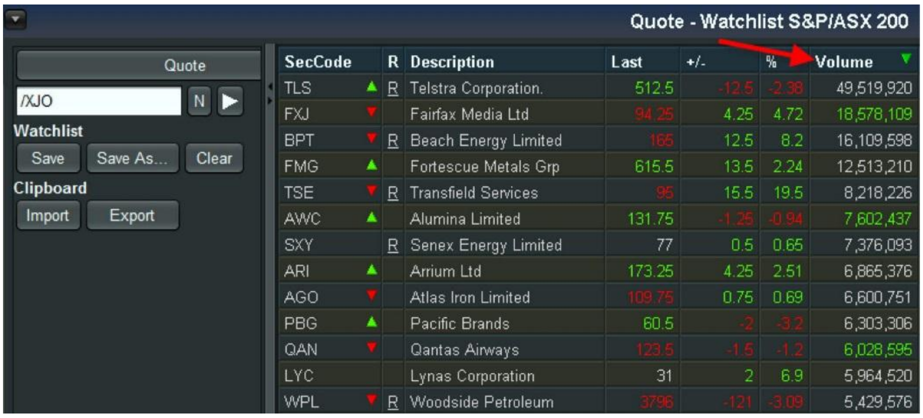
IDEA:
Use your Quote window in IRESS Trader to quickly identify the biggest movers by percentage and by volume.

PERCENTAGE LOSERS

SecCode	R	Description	Last	+/-	%	Volume	Bid	Ask
SAI	R	SAI Global Limited	383.5	-13.5	-3.4	1,269,675	383	384
PBG		Pacific Brands	60.5	-2	-3.2	6,303,306	60	60.5
WPL	R	Woodside Petroleum	3796	-121	-3.09	5,428,099	3796	3797
MGX		Mount Gibson Iron	95	-3	-3.06	3,100,961	94.5	95.5
IGO		Independence Group	416	-13	-3.03	508,815	415	416
SUN	R	Suncorp Group Ltd	1240.5	-35.5	-2.78	2,999,131	1240	1241
WES	R	Wesfarmers Limited	4260	-120	-2.74	4,509,132	4260	4261
ASL		Ausdrill Limited	97.5	-2.5	-2.5	1,512,807	97	98
TLS	R	Telstra Corporation.	512	-13	-2.48	49,519,247	512	513
SKE		Skilled Group Ltd	313.5	-7.5	-2.34	162,617	313	314

Click on the % icon again and it will arrange stocks by negative percentage movement.

MOST VOLUME TRADED



SecCode	R	Description	Last	+/-	%	Volume
TLS	R	Telstra Corporation.	512.5	-12.5	-2.38	49,519,920
FXJ		Fairfax Media Ltd	94.25	4.25	4.72	18,578,109
BPT	R	Beach Energy Limited	165	12.5	8.2	16,109,598
FMG		Fortescue Metals Grp	615.5	13.5	2.24	12,513,210
TSE	R	Transfield Services	95	15.5	19.5	8,218,226
AWC		Alumina Limited	131.75	-1.25	-0.94	7,602,437
SXY	R	Senex Energy Limited	77	0.5	0.65	7,376,093
ARI		Arrium Ltd	173.25	4.25	2.51	6,865,376
AGO		Atlas Iron Limited	109.75	0.75	0.69	6,600,751
PBG		Pacific Brands	60.5	-2	-3.2	6,303,306
QAN		Qantas Airways	123.5	-1.5	-1.2	6,028,595
LYC		Lynas Corporation	31	2	6.9	5,964,520
WPL	R	Woodside Petroleum	3796	-121	-3.09	5,429,576

Click on the Volume icon to arrange stocks by the volume traded.

IDEA:
IRESS Trader allows you to drag and drop any security to a new window. You can also right click on the security code and select 'Broadcast' for security-specific information to appear in all windows on your platform.

You should pay particular attention to any stocks involved in fresh news. These stocks may see large price movements as investors digest the new information.

MORNING REPORT

The Morning Report is emailed prior to each trading day. It can also be found through the research portal on the FP Markets website.

C. Know other Traders

Psychology of trading

The price will move when there is excess demand or supply. For this reason it pays to know what the crowd is doing. By now you should have a good shortlist of stocks that you are looking to trade. It is important to compare your shortlist against the following:

- Sector Trends
- Stocks to Watch
- Stock patterns
- Fresh news
- Important support and resistance levels
- Volumes at different levels
- Volumes on the bid and ask prices
- Institutional influence
- Previous trading

It can be useful to spend 10 minutes putting together levels and data that are important for the day. If you do this on charts it is easier to print them and have a graphic representation of those levels.

ILLUSTRATIVE EXAMPLE: David notices on the FP Markets Morning Report that ALZ has been raised to outperform vs neutral at Credit Suisse. ALZ was also one of the highest percentage winners the day before. David plots the support and resistance level for ALZ (399, 384).

David is looking at the ALZ resistance level. With the RBA announcement and positive news he hopes for a breakout above 399.

There are many strategies to employ during your analysis. Ideally, you want to gather the best information that will help you make decisions based on your trading plan

Remember:

- Arrange the stocks or instruments that meet your criteria in a watch list and focus only on these.
- Try setting price alerts around stocks that you think have potential but that do not meet your criteria.
- Create a detailed plan before making any trade.

2. Constructing your trades

By now you should have a good idea of the trade set ups that you think have value.

Construct your trade with three steps:

1. Choose your ideal entry point and your stop level (the point at which the technical picture is invalidated). The difference between the entry point and stop loss is the risk you hold per unit.
2. The following calculation is used to determine your position size:

   Position Size = Risk per trade / (Entry Price- StopLoss) or; $S_t = R_t / (P_e – P_{SL})$

3. One you have your position size you determine your target using your Risk/Reward Ratio. You do this by adopting the RRR into the following formula

   Target = RRR x (Entry Price- StopLoss) or;

   $TP = RRR (P_e-P_{SL}) + P_e$

The potential of the trade must be greater than the target for you to take the trade. If the potential is not there then you do not take the trade.

ILLUSTRATIVE EXAMPLE: David knows his RRR is 1:2 and his acceptable risk is $100 per trade.:

1. David looks at the ALZ chart and wants to capitalise on a breakout above 399. He will enter the trade at 401. The stop loss is placed below the resistance level at 391.
2. His position size uses the calculation above:

   Position Size = $100 / ($4.01 – $3.91) = 1,000

3. David's RRR is 1:2 so his ideal target is $4.21.

   Target = 2 x ($4.01 – $3.91) + $4.01 = $4.21

If David thinks that this trade does not have the potential to hit $4.21 then he should not take this trade.

David uses the chart to plot his ALZ trade.

3. Evaluating your performance

Every good trader will tell you that they have good times and bad times. What makes them ultimately successful is learning what worked and what didn't.

A **Trading Journal** will help you keep track of your trades. Accurate records will lead to accurate assessment.

ILLUSTRATIVE EXAMPLE: David records his ALZ trade in his Trading Journal below.

Trading Journal

Enter	Enter	Enter	Enter	Enter	Enter	Forumula	Forumula	Enter	Forumula
Date	Code	Volume	RRR	Acceptable risk	Stop-loss	Entry Point	Target	Exit price	Profit/Loss
11/03/2014	BHP	100	2.00	$ 100	$ 35.83	$ 36.83	$ 38.83	$ 38.83	$ 200.00
19/03/2014	ANZ	500	2.00	$ 100	$ 32.10	$ 32.30	$ 32.70	$ 32.70	$ 200.00
20/03/2014	ALZ	1000	2.00	$ 100	$ 3.91	$ 4.01	$ 4.21	$ 4.21	$ 200.00

David records his ALZ Trade. He is doing well.

It can also be useful to note down how you feel at the time of the trade and how you are expecting it to play out.

Replicate the charts you produced as part of your trade plan. Mark the support and resistance levels as well as your entry and exit points. Now compare these with your original plan.

If the trade played out as expected you should note this down. If not, why not? You should look back to see whether there were any indicators you missed.

ILLUSTRATIVE EXAMPLE: David compares his new chart with his original chart.

David's original chart plots his entry price, stop loss and target.

By replicating the chart David has a record of whether the trade played out as expected.

Calculate your expectancy and use the information to improve your trading.

Some traders will judge their success on how many times they take away a profit. If your average profit is significantly higher than your average loss then it may not matter that you make more losing trades than profitable ones.

To calculate your expectancy simply use the equation below:

Expectancy = (probability of a win * average win) –
(probability of a loss * average loss)

Your expectancy will be expressed as a number. To put into practise simply multiply your expectancy with your risk per trade.

ILLUSTRATIVE EXAMPLE: David looks at his trading journal and wants to calculate his expectancy. He takes a profit on 30% of his trades. His average profit is 10% and average loss is 3%.

Probability of a win= 0.3

Average win= 10

Probability of a loss = 0.7

Average loss= 3

Expectancy = 0.9

David's risk per trade is $100. To work out his expectancy for a trade that risks $100 he simply makes the calculation:

0.9 * $100= 90

Compare the expectancy of your different strategies. You can then reassess the strategies that are not working and prioritise the ones that do.

Take the time to master the approach in this guide. Try applying some of the techniques to past trading- it may explain where you went wrong. Most likely it will lead to a more confident trader with an edge!

Should you have any questions or enquiries, please don't hesitate to contact FP Markets.

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Appendix **Stop Rules:**

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1 Set a daily stop level.

This is the maximum dollar amount that you are willing to risk in a single day. If you have an account of $30,000 you may choose to set your daily stop-loss at $750. In this case you would last for about 40 trading days of consecutive losses. Be sure to select a daily stop-loss that allows you room to trade, especially when market volatility is high.

2 Set stop losses for every trade.

It is vital that you do this BEFORE you enter a trade. Once you are in a position the temptation to break your rules is higher.

3 Set stop losses for every trade.

If you are wrong, you are wrong. Take your loss and re-assess. If your trades are informed by your trading plan then you have no reason to adjust a losing trade. Moving stops as you go can lead to disaster.

4 Use trailing stops.

If the market moves your way try adjusting your stops to reflect your initial risk. A trailing stop loss can be set by price steps or percentage through FP Market's IRESS platform. This will allow you to reduce risk as the position runs towards your secondary target.

5 Secondary targets (Profit stops)

If your position moves in your favour you have an opportunity to take part of your position. Use an initial target that equates to the level of risk you have taken. Then set a secondary target with the help of your RRR.

EXAMPLE: Suppose you are long 2,000 units of NCM at $10 with a stop of $1.00. If the stock starts moving up, take half of your position out for a profit and your stop would be at breakeven or better. Then you can let the rest of your position run towards your secondary target.

6 Trade Potential

Throughout this guide we considered the Risk/Reward Ratio from the stop loss point. You may decide to base the construction of your trade from the potential you see as opposed to the stops. Volatility will be different in each market, so be sure to adjust the distance of your profits and stops accordingly.

EXAMPLE: Assume your RRR is 3:1. If you think that a trade has the potential to rise 3 points then it makes sense for you to risk 1 point. If on average you are right on direction 50% of the time and your losers are smaller than your winners, then you can expect to see profits.

7 Plan your trade, Trade your plan.

This is cliché but the most important lesson you can learn.

Example: Imagine you are long BHP at $40 and you have set up a profit target at $45 and a stop loss at $38. BHP goes up to $42 but you can tell it is taking a while to perform.

Do you close the trade for a profit of $2? It can be tempting, especially if you think that the stock is running out of steam. You took the time to construct a trade with a cool head. Don't let yourself be biased by the heat of the moment.