Right now… your brain is dumped with new trading techniques and concepts.

You've learned how to trade pullbacks, how to trade breakouts, the different entry triggers, risk management, trade management, and etc.

And you're probably wondering:

"How do I make sense of everything?"

Well, that's what this chapter is for… to help you piece the puzzles together, and give you a framework to become a consistently profitable trader.

Trust me, you are getting close. And by the end of this section, everything will make sense.

Here's what you will learn:

- How to develop a trading plan so you can trade the markets with conviction
- How to develop your own trading strategy
- A trading plan template
- What it means to be a consistent trader

Excited? Then let's dive straight in…

How to develop a trading plan that works

A trading plan is a set of guidelines that define your trading decisions.

It removes subjectivity in your trading, reduce the emotional "roller coaster", allows you to identify problems in your trading, allows you to reflect and improve, and keeps you prepared for possible contingencies.

Now, I want you to know that developing a trading plan is an ongoing process.

You may not get it right straight away, but with continuous improvements, you will find something that works.

The key here isn't to find the *Holy Grail*. Instead, what you want to do is, quantify your trading plan objectively.

This makes it easier for you to reflect and improve on it.

So to do so, your trading plan must answer these 7 questions…

1. What is your trading timeframe?
2. Which markets are you trading?
3. How much are you risking per trade?
4. What are the conditions of your trading setup
5. Where is your stop loss?

6. How will you exit your winners?

Let me explain…

1. What is your trading timeframe?

A mistake I made in my early years of trading is trading way too many timeframes.

I was on the 5mins, 15mins, 1-hour, 4-hour, and Daily. This creates analysis paralysis in my trading and I wasn't sure what to do as I find conflicting signals through the different timeframes.

So if are new to trading and don't want to suffer the same fate as me, then I suggest having not more than two timeframes.

You will have:

Entry timeframe: The timeframe you will refer to for entries, exits, trade management, and etc.

Higher timeframe: The timeframe that gives you a sense of where you are in the "big picture"

Remember, there are no best trading timeframes out there. You need to find a timeframe that suits your trading style and your schedule.

Here's what I mean:

If you have a full-time job elsewhere, then it makes sense to be trading the higher timeframe since you can't watch the markets all the time.

Or if you are an aspiring day trader, then you can trade the lower timeframe as it will provide you with more trading opportunities.

Make sense?

2. Which markets are you trading?

It's not possible for a trader to trade every instrument out there.

Instead, you should focus on the markets you are comfortable with.

For example:

If you are trading Forex, then you must know which currency pairs to trade.

If you are trading equities, then you must identify which stocks to trade.

If you are trading futures, then you must define which sectors to get involved with.

Usually, if you are trading the lower timeframe, the fewer markets you will trade.

And if you are trading the higher timeframe, the more markets you will trade. The reason is that on the lower timeframe you will have more opportunities and it's difficult to watch so many markets at once.

3. How much are you risking per trade?

The biggest cause of traders blowing up their trading account is not because of their strategies, techniques, or entries.

But it's because they don't have proper risk management.

So, my suggestion is to risk no more than 1% of your account on each trade.

This means if you have a $10,000 account, then you will not lose more than $100 on each trade.

I understand this "rule" will prevent you from trading certain instruments (and timeframe) because your stop loss is too tight.

If that's the case, stop trading that instrument.

Go trade something else (like Forex) which allows you to have a small position size, so you can adhere to proper risk management.

Remember… you can have the best trading strategy out there.

But if you don't have proper risk management, you will eventually blow up your trading account. It's not a matter of if, but when.

4. What are the conditions of your trading setup?

Here's the thing:

Almost all trading strategies will work at some point in time.

The question is… under which market conditions will your trading strategy work?

Once you have figured it out, then it's a matter of applying to appropriate trading strategy under the right market conditions.

The next step is to decide your entry trigger. It serves as a confirmation that the market is ready to move in your direction.

You have entry triggers like the false break, weakness on pullback, and range with buildup (as mentioned earlier), which are essentially price patterns that tell you when exactly to enter the trade.

Now, it's not surprising that there are traders who don't use entry triggers.

They simply trade a level the moment price comes to it. If you ask me, there's no right or wrong.

Ultimately, you must trade with an approach that suits you best.

5. Where is your stop loss?

Trading is a business.

There's an overhead cost involved and it comes in the form of small losses.

It's nothing personal but simply the cost of doing business.

The "trick" is to keep it small so can live to fight another day.

Here’s what Bruce Kovner has to say on stop-loss:

“Place your stops at a point that if reached, will reasonably indicate that the trade is wrong. Not at a point determined primarily by the maximum dollar you are willing to lose”.

This means your stop loss should be at a level that, if it’s triggered, will invalidate your trading setup. And not based on the amount of capital you have or are willing to lose.

Now repeat after me:

“I will never trade without a stop loss.”

“I will never trade without a stop loss.”

“I will never trade without a stop loss.”

“I will never trade without a stop loss.”

“I will never trade without a stop loss.”

6. How will you exit your winners?

This question largely depends on the type of trader you are.

As mentioned earlier, if you are looking to trade for an income, then you will have a target profit in mind.

But, if you are looking to grow your wealth by riding trends, then you will trail your stop loss until you get stopped out of the trade.

At this point, you should realize there’s no best trading entry, exit, or strategy.

There are so many “moving parts” that you can adjust to suit your own goals and personality.

If you ask me, every trader must find their own trading style within them.

How to develop your own trading strategy

Now, there are no fixed rules to how you should develop a trading strategy because there isn’t a one size fits all.

So, here are some general guidelines to help you:

- What is the purpose of your trading strategy?
- What are the conditions for your trading setup?
- Using the IF-THEN statement

Let me explain…

What is the purpose of your trading strategy?

Here’s the thing:

A trading strategy that generates a consistent income will differ vastly from a strategy that builds your wealth (by capturing trends).

Thus it's important to identify your goals and then use the appropriate tools and techniques to achieve it.

For example:

If you want to develop a trading strategy that generates a consistent income, then you'll be looking to trade the lower timeframes, with a fixed target profit on most of your trades.

Or if you want to develop a strategy that builds your wealth, then you'll be looking at Trend Following which trades off the higher timeframes, with no fixed target profit.

Can you see how important this is?

What are the conditions for your trading setup?

There are many conditions you can consider like: Trading with the trend, counter-trend trading, Support & Resistance, Pivot points, Fibonacci, Moving Averages, candlestick patterns and etc.

But here are 2 important things:

1. Try not to have not more than 3 conditions for your trading setup because anything more would result in very few trades

2. Don't use technical tools from the same category because it clutters your trading. For example: If you're using RSI, then don't add on the Stochastic because they are both overbought/oversold indicators

Using the IF-THEN statement

Your trading strategy must be clear with little room for subjectivity.

So, what I do is to use something called the IF-THEN syntax when developing a trading strategy, which is something I learned from programmers.

Here's what I mean…

If I'm a boy, then I'll wear pants.

If I'm a girl, then I'll wear a skirt.

If I'm not a boy or a girl, then I'll wear nothing.

Now, let's see how we can use this to develop a trading strategy…

A trading strategy template

Remember, there aren't any hard and fast rules. You can tweak this template to suit your needs as a trader.

For example, you can:

- Use a different entry trigger
- Trade from a different area of value like trendline, moving average, and etc.
- Use a different moving average to define the trend
- Have a tighter stop loss to improve your risk to reward
- Ride the trend instead of having a target profit
- Apply active trade management
- Scale in your winners
- Scale out your winners
- Scale in and out of your trade

Ultimately, you want to use the IF-THEN syntax to make your trading strategy objective (leaving little room for discretion).

What it means to be a consistent trader

Once you have developed your trading plan… it's time to forward test it in the live markets.

I would suggest trading a small account because you will suck when you're starting out.

So, why pay more in "tuition fees" when you can learn the same lesson for a fraction of the price?

Next, you must execute your trading plan consistently.

This means following exactly what it tells you to do without deviation.

That's because to be a consistent trader, you must have a consistent set of actions.

It's impossible to be a consistent trader when you have an inconsistent set of actions.

That's like trying to bake a chocolate cake but you're changing the ingredients each time you bake.

Now, I know it's tempting to change your strategy after a few losing trades but it's the wrong thing to do.

Why?

Because if you recall, the law of large number states that in the short run, your trading results are random.

But eventually, it will be aligned towards its expectancy.

This means you should have a minimum of 100 trades before deciding to tweak your trading strategy or, to change it altogether.

Else you are making decisions based on something that's random, which doesn't make sense.

Here’s a quote by Richard Dennis to drive home my point: “Focus on whether what you are doing is right, not on the random nature of any single trade’s outcome.”

Now, when you execute your trades consistently, 1 of 4 things will happen. You will have…

1. A small win
2. A small loss
3. A big win
4. A big loss

And if you can eliminate #4 using proper risk management, you are much closer to becoming a consistently profitable trader.

So remember, if you want to be a consistently profitable trader, you must have a consistent set of actions — there are no two ways about it. Hopping from one strategy to the next will only lead you to an endless cycle of inconsistency. I’m sure you don’t want that, do you?

How to be a Consistently Profitable Trader

5 Step Checklist

01 Find your trading style

Read Market Wizards to understand the different trading approach used by successful traders. Adopt one method that makes the most sense to you, and research all you can about it.

02 Develop your trading plan

It should cover risk management, entries, exits, markets traded, and time frame.

03 Execute your trading plan

Execute your plan consistently, do not deviate from it. Gather a minimum of 100 trades for the law of large numbers to play out.

04 Record down your trades

Record down your trades using a trading journal.

05 Review your trades

After 100 trades, review your trading journal. If your trading has positive expectancy, congratulations! If not, go through step 2 to 5 again.

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Summary

- A trading plan allows you to execute your trades in a consistent manner
- To develop a trading strategy, you must know it’s purpose and what you’re looking for
- You can use the IF-THEN syntax to develop your strategy as it makes your trading more objective
- To be a consistent trader, you must have a consistent set of actions