

Presentation delivered at



Guide to:



# CREATING A TRADING PLAN

with trader

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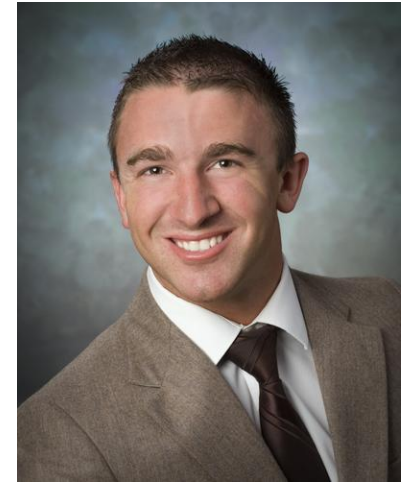
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# DISCLAIMER

- Trading stocks and derivatives poses a potential risk of loss. It is strongly recommended that you consult a licensed financial professional to determine a level of risk capital which is suitable for you before taking any action to trade the markets. The information in this presentation is for educational purposes only and is not intended to be financial advice. If you make or lose money in the markets it is because you decided to place the trade. You are accountable for your own actions. Your success or failure cannot be blamed on anyone but yourself.



# ABOUT ME: TIM RACETTE



- Trade Stocks, Options, & Futures
- Arizona State Sun Devil Alumni
- Mountain Biker
- Chicago-land Native
- More at [EminiMind.com](http://EminiMind.com)



*“The fruits of your success will be in direct ratio to the honesty and sincerity of your effort in keeping your **own** records, doing your **own** thinking, and reaching your **own** conclusions. The average man doesn't wish to be told that it is a bull or a bear market. What he desires is to be told specifically which particular stock to buy or sell. He wants to get something for nothing. He does not wish to work. He doesn't even wish to have to think.”*

- Jesse Livermore



# SUCCESSFUL TRADING REQUIRES...

- **Discipline**
- A strong level of **Commitment**
- A feeling of **Confidence**
- A pattern of **Consistency**
- The ability to **Adapt**

- Comprised...
  - 80% psychology
  - 20% systems



# TRADING PLAN OUTLINE

- **Mission**
- **Market Theory**
- **Goals**
  - Motive
  - Time Commitment
  - Financial Commitment
  - Monetary
  - Market Specifics
  - Personal
- **Trading Methodologies**
  - Risk
  - Rules
  - Systems
- **Business Management**
  - Record Keeping
  - Emotions
  - Routines
  - Checklists
  - Contingencies



# WARREN BUFFET'S RULES

1. Preserve your capital.
2. Don't ever forget rule #1.

*Treat trading as a business, not as a hobby.  
Hobbies cost money, a successful business makes money.*



# MISSION

- Overall goal as a trader
  - Provides direction
  - Acts as guide

## **My mission as a trader is...**

- To design and execute trading strategies which extract money from the markets on a consistent basis.
- To remain committed to achieving success and doing whatever it takes to get there.
- To build confidence through a sound trading plan.
- To learn from every mistake and trading experience.





# MARKET THEORY

- Ideology towards the markets
  - The forces you believe drive the market
  - How the market functions

## **I believe...**

- Anything can happen.
- The market is ALWAYS right.
- Old support becomes new resistance.
- At any split second the market can take from you, that which you worked hardest and longest to obtain.
- There will always be another trade.



# GOALS

## ○ **Motive**

- Why do you want to become a successful trader?
  - Financial freedom
  - Ability to work from any location
  - More money
- What drives you to succeed as a trader?
  - Competitive nature
  - Entrepreneurial spirit
  - Enjoy the challenge
- What makes you different than the thousands of other traders who wish to become successful?
  - Exercise great discipline
  - Strong ambition
  - Committed to doing whatever it takes to succeed



# GOALS

## ○ Time Commitment

- Study the markets
- Progress as a trader
- Customize trading plan that fits YOU



## I Will...

- Devote 10 hours a day to progressing as a successful trader
- Devote 7:00a to 2:00p CST M-F to trade the E-mini S&P.
  - When no trade setups are present I will watch and take notes.
- Devote 2 hours a night to reflecting and analyzing the markets
- Devote 1 hour a night to preparing for the following days trading session.



# GOALS

## ○ **Financial Commitment**

- Capital allocated to trading
- Keep expenses to a minimum
- Create a monthly budget and track your expenses
- Define your risk capital
  - Money that if lost, wouldn't change your lifestyle
  - Or lengthen your retirement horizon
- Remember that investing is also valuable
  - The power of compounding interest

## ○ **Monetary**

- Bottom line
- \$ amount you wish to make each month (dream & realistic)
- Ways to measure your progress as a trader



# GOALS

## ○ **Market Specifics**

- Research markets as a whole
- Pick a market that suits your time and financial commitments
- Fully understand the market in which you trade
- Pick a broker that suits your needs at competitive rates

## **I Will...**

- Trade stock and options using the [Thinkorswim](#) platform
- I will trade Futures using the [Infinity Futures](#) platform.



# GOALS

## ○ Time Frame

- Match time frame to personality and goals
  - Day Trader: Intraday trades only, flat at end of day
  - Swing Trader: Hold overnight positions, 2 days to 2 weeks
  - Trend Trader: Hold positions weeks to months at a time



# GOALS

## ○ Time to Trade

- Six sessions of the day (U.S. Trading EST)
  - Pre-Market 8:00 to 9:30
  - NYSE Open 9:30 to 10:00
  - Morning 10:00 to 11:30
  - Lunch 11:30 to 1:00
  - Afternoon 1:00 to 3:30
  - Close 3:30 to 4:00



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# GOALS

## ○ Personal

- Balance trading with personal time
  - Family
  - Friends
  - Hobbies
  - Community
  - Spiritual
- At least 45 minutes of exercise per day





# TRADING METHODOLOGIES

## ○ Risk

- Loss Limits
  - Trading Probation
  - Trade Size
  - Stops
  - Emotions
- 
- How much \$ are you comfortable losing?



# TRADING METHODOLOGIES

## ○ **Loss Limits**

- Risk Per Trade:      less than 1% of total account balance
- Daily Loss:            less than 3% of total account balance
- Weekly Loss:         less than 6% of total account balance
  - \* Cease trading for duration of week if this breakpoint is hit

## ○ **Loss Limit Rules**

- Stop trading on Monday or Friday after 1 stop out
- Stop trading a market for the day after 2 full stop outs
- Stop trading for the day if 3 total stop outs occur
- If down on week going into Friday, take the day off




# TRADING METHODOLOGIES

## ○ Trading Probation

- When weekly loss limit is hit
  - Cease trading for the remainder of week
  - Close all open short-term positions
- Decreases likelihood of blowing up account
- Create routine to help regroup and motivate

### **Routine...**

- Shut down the computer and go for a walk outdoors
  - Spend the rest of the day doing an enjoyable activity
  - That evening, read from a book such as [Market Wizards](#)
  - List the things you did good and bad in my trading for the week
  - Print out charts and review your trades for the week
  - Wake up following morning and go through routine, but do not trade
  - Take the weekend to relax
  - Come into the following week cool, calm, collected and ready to trade
- 

# TRADING METHODOLOGIES

## ○ **Position Sizing**

- Start small
- Trade with risk capital
- Portfolio diversification still applies
  - Build a separate core: 401k, IRA, etc.
  - Trade capital should have little effect on overall portfolio
- Begin with stocks
  - Understand the fundamentals
  - Easier to define risk parameters
- Prove consistency on a SIM Account first
  - Work the ins and outs of your system
- Stick with 1 contract until consistently profitable
  - Redefine loss limits when increasing size to remain balanced



# TRADING METHODOLOGIES

## ○ Define Risk

- Use equation below to calculate number of shares per trade
- Example...

**# of shares =**

**Risk per trade / Risk per share**

Account Size: \$25,000

**Risk per trade:** 1% or **\$250** (.01 x \$25,000)

Entry Price: \$50

Stop Price: \$45

**Risk per share:** **\$5** (\$50 – \$45)

**\$250 / \$5 = 50 Shares**



# TRADING METHODOLOGIES

## ○ Stops

- Always use them
- Placed at the time of entry
  - Above or Below
    - Support/Resistance points
    - Round #'s \$25, \$50, \$100, etc.
- Can only be tightened, never widened
- Trail stops to reduce risk over the time in the position
- 4 basic outcomes of a trade - Eliminate the “Big Loser”

BIG Winner

BIG Winner

Small Winner      vs.

Small Winner

Small Loser

Small Loser

BIG Loser

...

- Dramatically increases chance of success



# TRADING METHODOLOGIES

## ○ Rules

- Not specific to any one trading system
- Help build consistency
- The simpler the better
- Develop rules based on your own experiences



# TRADING METHODOLOGIES

## ○ Rules (Examples)

- Plan your trade and trade your plan.
- Keep things simple.
- Remain focused and disciplined.
- Fully understand the markets in which you are trading.
- Only place trades when you are in a calm, cool, and collected state.
- Be selective with trades.
- Place stops at the time you enter a position.
- Let your winners run and cut your losses.
- Keep honest and meticulous records.
- Don't chase trades.
- You and only you are held accountable for every trade.
- Don't let a big winner turn into a loser.
- Hold opinions loosely.
- Never add to a losing position.
- Place more weight on longer time frames.

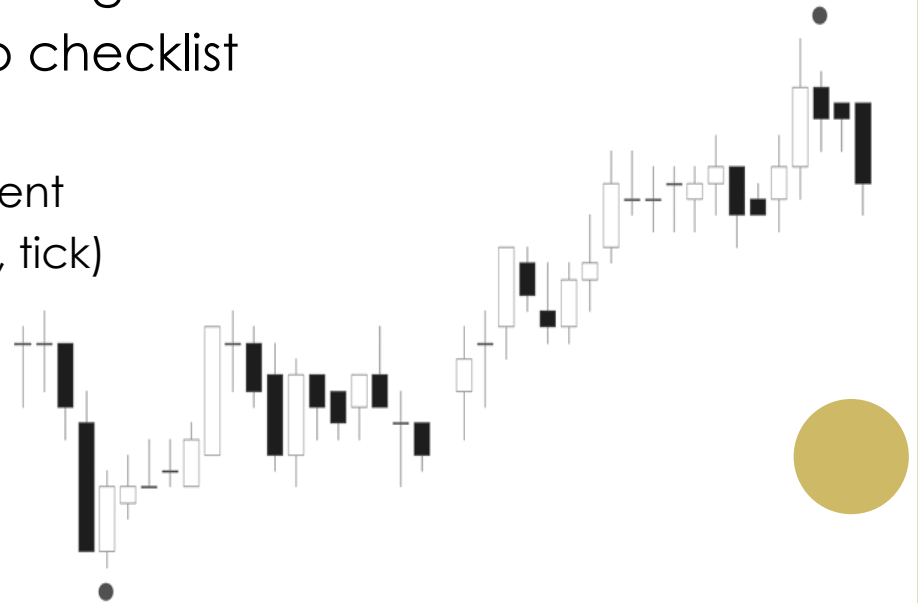




# TRADING METHODOLOGIES

## ○ Systems

- Must have an edge
  - When applied to a statistical set over time, results in profit
    - Ex:       Buying strong stocks on pullbacks in an uptrend
    - Fading the opening gap
- Be selective!
- Define entry, exit, and profit target
- Patience! Use a trade setup checklist
- Define Indicators
  - Used to gauge market sentiment
    - Internals (breadth, a/d line, tick)
    - Support/Resistance levels
    - Moving Averages
    - Oscillators
    - Fibonacci
- Think scalable



# BUSINESS MANAGEMENT

## ○ Record Keeping

- MUST treat trading like a business
- Keep HONEST and METICULOUS records!
  - Journal, Excel, Tape Recorder, etc.
- Tools I use and recommend:
  - [StockTickr](#)
  - [Trading Journal Spreadsheets](#)
- Use for analysis
- Print screenshots
- Record emotions



# BUSINESS MANAGEMENT

## ○ Market Notes

- Indices closing price and volume
- Leading sectors and industry groups
- VIX, Oil, Gold, EUR/USD settlement prices
- Market Breadth

## ○ Trade Notes

- Gross and Net Profit/Loss (daily, weekly, monthly, yearly)
- # of winning, losing and scratch trades
- Total # of trades
- Time spend in trades
- Commissions
- How did you feel...
  - Entering the trade?
  - During the trade?
  - When the trade went against you?
  - When the trade went in your favor?



*“What is necessary to change a person is to change his awareness of himself.”*

- Abraham Maslow



# BUSINESS MANAGEMENT

## ○ Calculations

$$\text{Winning \%} = \frac{\text{\# of Winners}}{\text{Total \# of Trades}}$$

$$\text{Losing \%} = 1 - \text{Winning \%}$$

$$\text{Avg. Winner} = \frac{\text{Sum of Winning Trades}}{\text{\# of Winning Trades}}$$

$$\text{Avg. Loser} = \frac{\text{Sum of Losing Trades}}{\text{\# of Losing Trades}}$$

$$\text{R-Multiple} = \frac{\text{Avg. Winner}}{\text{Avg. Loser}}$$

\* Reward to risk ratio

$$\text{Expectancy} = (\text{W \%} \times \text{Avg. W}) - (\text{L \%} \times \text{Avg. L})$$

\* Average P/L you can expect per trade



# BUSINESS MANAGEMENT

## ○ Emotions

- Confidence
  - In your trading plan
  - In your trading system
  - In yourself as a person
- Good trading should feel effortless
  - No emotion towards losing trades
  - No emotion towards winning trades
- Keep a positive attitude
  - Learn from losing trades
  - Reflect on +/- 's
  - Continue to grow and better understand yourself



# BUSINESS MANAGEMENT

## ○ Routines

- Framework of repetition
- Help keep you in a cool, calm, and collected state

### **Pre-Market Routine...**

- Read rules
- Pull up economic calendar
- Fill out “Daily Notes
- Read over the days trading plan
- Listen to music

### **Intraday Routine...**

- Stick to trading plan! Follow Rules!
- Trade every setup that provides a favorable risk/reward ratio.



# BUSINESS MANAGEMENT

## **After Hours Routine...**

- Complete “Market Recap” document for the day
- Print intraday chart and highlight entries and exits
- Write narrative recapping the day’s action
- Exercise
- Verbal recap with trading partner
- Record daily P/L and trade data
- Flip through core sector list, gold, oil, EUR/USD
  - Look for divergences & relative support/resistance levels





# BUSINESS MANAGEMENT

## ○ Checklists

- Procedures to remain efficient

### **To do each day...**

- Reboot computer
- Get at least 45-mins of exercise
- Eat quality meals
- Back up hard drive

## ○ Contingencies

- Important phone #'s in case of emergency
  - Trade Desk
  - Clearing Firm
  - Computer repair
  - Internet provider
  - Electric company



# TO RECAP

- Defined success through specific
  - Goals
  - Loss Limits
  - Trading Rules
- To become successful one must develop
  - A strong level of **Commitment**
  - A feeling of **Confidence**
  - A pattern of **Consistency**
  - The ability to **Adapt**



*“Never leave that till tomorrow,  
which you can do today.”*

- Ben Franklin



# HELPFUL RESOURCES

- [EminiMind.com](http://EminiMind.com)
- Charting and Execution Platforms
  - [Infinity Futures](#)
  - [Thinkorswim](#)
- Trading Journals
  - [StockTickr](#)
  - [Trading Journal Spreadsheets](#)
- Reading List
  - [Reminiscences of A Stock Operator](#) by Edwin Lefevre
  - [Pit Bull](#) by Marty "Buzzy" Schwartz
  - [Market Wizards](#) by Jack D. Schwager
  - [Mastering the Trade](#) by John Carter
  - [Trading in the Zone](#) by Mark Douglas
  - [The Tax Guide for Traders](#) by Robert Green





# Thank You!

Sincerely,

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