



Putting  
the  
pieces  
together:

## The Trader Business -Plan

Many people, excited by the opportunities presented in the markets, leap before they look. Some people find temporary success “winging it” or learning as they go. However, more often than not, that approach results in massive drawdowns, despondency and closed trading accounts. Newcomers to the markets, and even those who have already started trading (even successfully), may find themselves reading this article and thinking “What does this chap mean by...?” or “I never thought of that”. If that’s the case, you may very well benefit from the time investment required to thoroughly learn your trade, study all the tools available, and design a business plan before expanding your activity in the markets. Here, Chris Terry offers an outline for designing a business plan with the elements required for a successful career trading.

Just as a carpenter needs his hammer, saw, and blueprints, it is important for the trader to be well equipped with the proper tools. The trader must have a good charting platform, data feed, books, and proper education. However, the most important tool required for trading success is a good, solid business plan.

There is a saying: “Without a plan to win, you automatically plan to fail.” Compare trying to trade without a “goal” to a soccer team playing without a goal or a net to put the ball in for a score. They would run the field in circles aimlessly until they tired out. Below we examine the basic concepts for how to develop a business plan. This is an outline to inspire ideas. Traders should use the ideas only to inspire and design their personal, custom plan.

### Business Plan, Part I: Personal growth

Maintaining a great attitude is vital for success, and negativity is one of the greatest challenges a trader must overcome. Self doubt and lack of confidence are poisons – not just for traders, but for anyone striving for success. One cannot expect to succeed long-term if their brain has recorded years of negativity with relatively little positive input to defend against the negative influences. A negative thinker will lack the confidence to take the required steps to achieve success. The first goal is to decrease negative influences and build a positive attitude.

As a trader, it is vital to start diluting the negative influences in life with positive input. Since the subconscious portion of the brain is more powerful than any computer invented, it cannot erase any of the sights, sounds, and smells of life; they are imprinted forever. Making an effort to becoming deaf to negative influences, and choosing not to read or listen to negative inputs, while also adding positive input, will start to dilute the past negatives and create a mental state conducive to success.

Achievers in any field strive for peak performance mentally, physically, emotionally, and spiritually. Combating negativity is the primary goal for achievers, and this is why the “Self Help” section of any bookstore is one of the largest, with rows and rows of books. The game plan for personal growth is:

1. Read books on “Positive Mental Attitude” (PMA). See table 1 for a list of recommended titles.
2. Positive self talk  
Start to think of yourself as a winner. Say to yourself: “I am a winner. I am a success. I am constantly learning, I surround myself with positive influences, and I am a great trader.”  
For many, this may seem to be pure nonsense, but believe it or not, it will help improve your trading results. It is a key element for creating positive results and preventing negativity from sneaking into your thoughts and trading results.

3. Associate with like-minded people  
Another important component of success is being part of an association or a group of people striving for the same goals in the same business. As a trader, one should do his best to find others who have a common interest in technical analysis and short-term trading. There may be groups in the local area that meet on a regular basis, but there are also many chat rooms where traders can trade insights and inspire one another.
4. Physical  
Exercise, not just to stay healthy physically, but also for a healthy mind can greatly support you in creating success as a trader. Doing 30-45 minutes of exercise at least three times a week will assist in keeping the juices flowing physically and mentally.

### Business Plan, Part II: Trading goals

#### Plan summary

1. Mission statement
2. Goal setting
3. Financial and time commitment
4. Record keeping
5. Trading plan methodologies
6. Drawdown rules and contingency plan
7. Compensation

#### 1. Mission statement

- What is your business objective? Here are some examples:
- To become one of the top traders in the world, I will: 1) invest time and money into books, seminars, and market research

## T1) Recommended PMA books

### Books by Napoleon Hill:

*Master Key to Riches*  
*Keys to Success*  
*Success Through a Positive Mental Attitude*  
*Think and Grow Rich*  
*Keys to Positive Thinking*

### Books by Norman Vincent Peale:

*Power of Positive Thinking*  
*You Can if You Think You Can*  
*Results of Positive Thinking*  
*Enthusiasm Makes the Difference*

## T2) Recommended titles for technical analysis and trading

*Technical Analysis and Stock Market Profits: The Real Bible of Technical Analysis (Traders' Master Class)*, Richard Shabacker

*Technical Analysis of the Financial Markets*, John Murphy

*Technical Analysis of Stock Trends*, Robert Edwards /John Magee

*The Psychology of Technical Analysis*, Tony Plummer

*Forecasting Financial Markets*, Tony Plummer

*Profits in the Stock Market with Charts*, H.M. Gartley

days per week, and for others it could be 14 hours per day, six days per week. For example:

Trading Analysis will be done on a daily basis. If it is not done on any particular day, trade execution will not occur. Analysis on weekly, daily and intra-day time frames will be done 8-10:00 pm. If this is not permissible for any reason, it will be done the following morning at 6:45 am. An analysis of actual trades executed will be a part of my end-of-week analysis. This will help to duplicate positive outcomes and eliminate poorly executed trades. Analysis of a monthly chart will be done on a bi-weekly basis. Both the end-of-week and monthly analysis will take place anytime between Friday and Sunday evenings.

### 4. Record keeping

It is important to keep a record of all business transactions. Keep a separate filing cabinet just for your trading business, and check daily trade summaries each night for possible errors. Stay on top of the paper work as it is created or this will get away from you quickly. Expense reports, bank deposits and withdrawals, and credit card expenses should all be maintained and up-to-date.

For example:

All trades will be logged and all statements reconciled every day, and any problems will be rectified immediately. I am currently keeping a sheet on each trade, noting trade rationale and time frame, profit objectives, and stop-loss parameters, plus a trade review noting adherence to the preceding and all other trading rules. I also keep a daily sheet noting daily P&L and open positions. Closed profit and loss will also be tracked on a weekly and monthly basis.

### 5. Trading plan methodologies

A trader must clearly define the entry method and be prepared to respond to all types of market conditions. How to exit the trade, both with a gain or a loss, must be predetermined and clearly defined. The following examples will give an idea for how detailed and specific the plan should be, and you should develop your own plan.

#### Entry plan for trending environment:

- Markets to retrace 38-50% off its highs
- A support at its 20-period exponential moving average
- A bull-flag formation
- On a smaller timeframe, look for a ABC corrective wave to confirm bull flag pattern
- Test of the lower trend-line of the bull-flag pattern
- Stochastic to have reached oversold condition of 20 or lower
- Once the market confirms all this criteria, place a buy order at the market
- Exit at the pivot low below its 20 EMA as risk point, typically no more than x points of risk on any one trade. Exits will be as follows: when profitability is more than x points, seek to take off 50% of my position immediately and move the stop

- 2) associate with top traders in my field
- 3) always expand my mind with new ideas.
- To develop as a solid, steady trader with a well-defined trading program, I will:
  - 1) focus on the price action of the current market conditions for short-term trading;
  - 2) work to become a 70%+ win-ratio trader
  - 3) helping fellow traders improve their ratios.
- In the long-term, I will manage money for clients, become one of the top teachers in trading and technical analysis, and write a book on the subject.

### 2a. Trade goal setting

How many trades will you average per day? What is your maximum? How many points do you want to strive for per trade?

### 2b. Personal growth goal

Your personal growth should be to maintain a solid mental and emotional foundation and constantly improve knowledge and skill. The goals could also include both trading and non-trading related books to read. Table 2 is a list of recommended titles on technical analysis and trading.

### 3a. Financial commitment

Determine the financial commitment you will make to your business which includes account start-up capital, data feeds, accounting and attorney fees, telephone/fax services, computer equipment, seminars, etc. For example:

I will fund my short-term trading account with a minimum of \$100,000 and will use a maximum 4-1 margin. My financial commitment to my swing trading account will also be \$100,000. I commit up to \$3,000 each to attend two training seminars per year, \$50 per month for trading books, and \$300 per month for my data and charting software.

### 3b. Time commitment

This is the amount of time you invest in your trading business each day, which for some traders might be just a few hours, five

up to the break-even point. Short sells are simply a reverse of the above.

### Entry plan for breakout trades:

- Use the first few hours' range for a breakout trade
- Pre-publications and criteria will be for a narrow range market that has been consolidating for at least five trading days
- Let the market breakout of its first hour's range and look to buy a bull flag on a one-minute chart
- Should the market trade back and test support of a high of first hour range this would be a good time to buy
- The exit will be just under the support of the first hour range. Shorts are reversed. Profits will be taken for more than x points on 50% of position, and move stops up to breakeven. Look for continuation patterns for pivots to adjust stops and seek to exit into recent resistances or higher timeframes' EMAs.

Every plan must include the exit parameters for all market conditions, and how to respond when the market moves for or against the positions. Table 3 shows a list of several exit strategies and parameters.

### 6. Drawdown rules

If you are experiencing a serious string of losses, called a drawdown, there is something wrong. Continuing to trade in the same manner without any preset rules for to respond to a drawdown can result in a zero-balance account. However, having predefined rules will allow you to respond to a drawdown in a calm manner, and will give you the opportunity to return to effective trading. Below are examples of drawdown rules:

- If three trades in a row are losers, trading for that day will come to a halt and no further trades will be made. The rest of the day will be occupied by either taking a break from trading and resolving any issues that may be hindering my thought process, or by analysing the market and why those trades lost.
- Stop trading immediately if the account balance exceeds a 50% drawdown of base capital. Traders should have a contingency plan. What is your plan in the event you take a severe loss or drawdown? What could go wrong with your business plan that would put you in this situation? For example:
  - Not executing trades when signals occur
  - Executing trades when there is no entry signal
  - Not having an exit plan for a win or loss scenario
  - Allowing losses to exceed predetermined amounts

My contingency plan should any of those possibilities occur is: take one week off from the markets to reevaluate my trading, current market conditions, my risk management, and my mental and emotional stability. If a vacation is necessary, take one.

## T3) Examples of exit parameters

1. Exit at a retest of intraday high/low or swing high/low
2. Exit at fixed profit objective in dollars
3. Exit at an objective chart point
4. Exit at a time interval (i.e. four days)
5. Exit at a combination profit time: i.e. first profitable open or second profitable close
6. Don't exit but just reverse
7. Exit on a range expansion
8. Trail a stop off the low
9. Trail a stop off the high
10. Exit on close
11. Exit if the day's close is less than a certain percent of the daily range in the direction you are trading

### 7. Compensation

Finally, what will your business need to pay you per month to cover your personal expenses? This is a business and, with time, should be able to afford to pay you an income just as you would receive working for any company.

The possibilities for trading plan designs are limitless and extremely flexible – *having* a plan is the only strict requirement. The material presented here is an example only and can be used as a foundation to start building upon.

Finally, attempt to find one method that works on any timeframe and that fits your character and risk tolerance. Then commence your work and strive for excellence with these methods in one market environment. After you have achieved that, then you can take your success and stretch it across all market environments and conditions.

**TRADERS**

Christopher Terry

Christopher Terry is a full-time stock and index futures trader.

He lectures at a number of derivative conferences and writes for industry magazines. Chris, along with his partner, New Market Wizard Linda Bradford Raschke, educates traders on both equities and futures markets at [www.lbrgroup.com](http://www.lbrgroup.com).