Stuart McPhee's Trading Plan Template

Mindset

* Right from the start you need to ask yourself whether you are prepared to work towards achieving a trading plan that will work. If yes, great! Many people have come before you and not succeeded at trading. You need to separate yourself from all those people and let's face it - this takes work!

* One of the key questions throughout the entire trading plan template. Many people suggest that trading has a reasonably high failure rate so why do you think you are going to be any different from most people. Why are you going to be successful trading?

* How will you overcome the emotions and feelings (eg. fear, worry, excitement etc) and their influences on you when you are making your trading decisions?

* In the interests of little distractions and clear thought, where are you going to make your trading decisions? Which location provides you the privacy to spend time with yourself and with your own thoughts in peace and quiet? Identify a time in the day when you are best suited to have this time to yourself.

* Write down your own strengths and weaknesses considering at least the following areas: your self confidence, patience, discipline, organisational skills, computer proficiency, motivation, tolerance when things don't go your way, and your ability to commit. Who likes to evaluate themselves? Not me, I can assure you but it is a necessary evil.

* Remember the saying, "If you aim at nothing, you are sure to hit!" In line with this, we wanted to identify our trading goals. Why are you trading and what do you expect to achieve in the next 6 months, 1 year, or 5 years (or any time period you set)?

* How much time will you have to trade? This is crucial as it will most likely affect the style of trading you adopt. Not much time available? Well, short term trading is highly unlikely to work for you.

* There is so much to learn about the power of the mind. I believe that you will only fully understand the different mindset issues when you actually have money at risk and face certain situations yourself in the market.

Money

* You must set in stone the most important thing with money management – protecting your capital. Even though your primary motivation is to make money and you consider this important, protecting your trading capital is even more important. How can you make money, if you don't have any money to trade with?

* The most important trading rule is to cut your losses. To do this, we use stop losses. A 'stop loss' is a pre-defined level (price) at which you will exit a trade based on the premise that it is not moving in the direction that you had anticipated, and therefore you are losing money. The first thing was how are you going to set your stop loss point?

* One of the best ways to manage your risk when trading is to limit or set a cap on how much money you put into a single position. This is to guard against the possibility of something adverse occurring. What is the maximum percentage of your trading capital you are prepared to commit to a single trade?

* Another crucial part of money management is position sizing. How are you going to position size? Examples include the equal portion method and the model based on your risk amount and where you position your initial stop loss. Which one are you going to use? Second, what is going to be your maximum risk exposure across your trading portfolio at any one time? Will you limit the number of trades based on how much risk capital you have at risk across all of your open trades?

* What happens if you keep losing money? This question has little to do with trading but rather your own financial situation. Are you prepared to lose every cent of your allocated trading capital before you are forced to stop, or do you think you would like to hold on to some of the money and commit it somewhere else, with the plan of either not trading again for an extended period of time or giving up altogether?

* Further on trade size - if you have had 3 losses in a row, the probability that you are going to have a profitable trade doesn't automatically shift in your favour. Nor does it continue to shift as each losing trading passes. Don't increase your trade size thinking your next winner is just around the corner. After a few losses, your trade size should be decreased slightly to reflect your diminished trading capital.

* Liquidity is your ability to trade in a stock without adversely affecting the market price due to insufficient buyers and sellers in the market for that stock. You never want to be stuck with a stock that you need to exit from just because there are insufficient buyers in the market. How are you going to measure liquidity and what will be your minimum level you will accept?

* Volatility is directly linked to risk. Would you consider using a minimum or maximum filter for volatility percentage? In trying to avoid speculative stocks, will you only enter trades when the price is above a set amount? If so, what is that amount?

* There are numerous products available to trade including shares, futures contracts, options on futures as well as options on stock, currencies (foreign exchange), CFDs and more, and they all have different risk profiles. If you are trading multiple products, how are you going to allocate your capital accordingly based on the different levels of risk?

* What would you describe as an adverse move against you and what will you do should it happen to you? Second, under what other circumstances will you consider selling regardless of what exit points you set?

* Now to some happier money management areas – selling with a profit. How are you going to trail the stock price with your exit once the price moves higher? How are you going to calculate this?

* A strategy for to consider is pyramiding – adding more money to a profitable trade. Will you consider pyramiding into profitable trades? If so, at what point will you purchase more shares in the company and how will determine how much more to buy?

* Similar to the mindset area, there is a lot to learn about managing your money in trading. Telling you to cut losses is one thing – executing that ruthlessly and without hesitation can be another. Working out that you are going to use a 10% trailing exit for your trades is all well and good – sticking with that and not changing the rules half way through a trade can be another challenge altogether.

Method

* Conceptualise your trading methodology. First, talk in very general terms about how you are going to approach your trades. As examples, are you going to trade a leveraged instrument like CFDs and trade short term reversals in medium term trends? Are you going to trade in only the top 200 stocks from your exchange and look at medium term trends only with a view

to buying stocks as they trade to 12 month highs? Are you going to trade more speculative stocks at the other end of the scale and trade breakouts from trading ranges?

* If you are going to use technical analysis, what items are of most interest to you? For example, are you interested in trends? If so, over what time frame and how are you going to identify them? Are you interested in reversals of short term or medium term trends? If so, how will you identify them and then what will you do once you identify them? How about technical indicators? Will you use any of them?

* If you are going to use fundamental analysis, what items are of most interest to you? For example, are you interested in earnings, dividends, growth, acquisitions? If so, how will you use that information?

* So which products will you trade? Will you trade multiple products? Should you be trading anything other than stocks if you be starting out?

* One of the time tested trading rules on the trading-plan.com website is titled 'Follow the Trend'. It states:

"In an environment where you will find no friends, the trend may be the only thing that resembles a friend for you. Always trade with the trend! Never attempt to identify the bottom in the stock and time your entry using that approach, as you are likely to be run over as the stock continues on its way down. There are often great forces at work and momentum when a stock is trending in either direction, especially down so don't try to fight it. What type of trend are you interested in and how are you going to identify that trend?

* Are you going to use any technical indicators? What tangible value does that indicator(s) provide you and how are you going to interpret them?

* Despite the passage of time, human nature and behaviour over the years, remains constant. All market participants are driven by similar emotions and will often react to situations in the same way. Moreover, there are always a continual flow of new participants into the market and they are generally ignorant of the way the market has behaved in the past. For this reason, the same mistakes are often repeated by each new group of market participants – this is why chart patterns often work. First, will you consider a particular chart pattern as a setup (lead into) for a trade entry? Second, are there any chart patterns that will immediately stop you entering a trade or at least have you waiting until the pattern has completed or dissolved?

* There is a process which seeks to categorise the industry/economic sectors in an equities market. In most markets, the performance of all industry sectors is reflected in an index for each. Will you use any form of sector analysis in your method? If so, how will you use it? Will it be the starting point for your trade selection process or will it be a final filter to ensure you don't enter stocks that belong to poorly performing sectors?

* A watchlist is the term that many use to describe a list of stocks that have met all or most of your selection criteria and are waiting for final approval for a trade entry – it is a list of potential trades. Often, watchlists cause many people a great deal of frustration because it takes so much effort to monitor all the stocks and then it becomes overwhelming and all too hard. It becomes inefficient and the primary purpose for using the watchlist in the first place is forgotten. Will you setup a list containing potential trading opportunities (a watchlist) and how you will manage it? How will you set it up? Will it be in a written diary, an excel spreadsheet or in what format? How often will you analyse the contents of the watchlist to ensure it remains accurate? What additional comments will you make for each stock that will help you when you revisit that stock for further analysis in the near future?

* Your decision to enter a trade is one of the first decisions you make when trading. However, it is also one of the least important. There are far more important issues, such as your position size and what your exit plan is. What are your conditions that you look for in all of your trades? What setups may spark your interest and have you closely monitoring the price of a

stock? Finally, what triggers will you use? Here's a tip – don't stress over this. Follow the time tested trading rules and keep it simple. Simple works!

* Using a 'weight of evidence' approach can add to the effectiveness of your stock selection process. What this means is that you may place greater emphasis on certain conditions over others. You may set up a decision matrix and have a minimum score that a potential trade needs to reach before becoming a genuine trading opportunity. Do you think you may consider using this approach? Does this provide you some ideas for modifying your current approach?

* A trading diary should detail all of your trading decisions, including reasons for initiating a trade, your emotions when opening the trade, notes concerning the short and medium term trends of the price and relevant economic sector, as well as daily adjustments of exits. A trading diary provides you with a methodical way of maintaining a clear focus. It can also assist you with learning from your mistakes. Will you use one? If so, what information will it contain?

* It is imperative that you monitor your performance for a variety of reasons. The most basic of these is to ensure you oversee your trading capital. Why? The most important aim in trading is to preserve your capital. Further, monitoring your performance allows you to review your past trades and learn from your mistakes. This is a tactic employed by some of the best traders in the world. They will periodically review all of the trades they have conducted, both winners and losers, and learn from them. How will you go about conducting a review of your trading activities and how often will you do this?

* Having a routine (preferably written down) makes it so much easier to follow your plan. Why is this critical? Well, why do most traders fail? They have no plan, or if they have one, they don't follow it. Simple. What the routine should do is compile most of the parts of your trading plan so you ensure for every trading opportunity and subsequent trade, you process it methodically and efficiently. It will also stop you getting distracted by other matters. What will be in your routine? Write it down and make up many copies of it so you can check it off every day and for every trade.

* When you place your order, what type of order will you use? How will you place your order? If you use a human broker, then this question is of less importance than those who use a trading platform or web browser and have no human intervention. Will you use the same type of order under all circumstances?

* The problem for some people who have not yet chosen any software, is there is so many available. The most basic features are of course, the ability to chart – to take data for a stock or other product and produce a chart which graphs/plots the price over time. Most will provide some technical indicators for you to place on the chart and will allow you to change the periodicity of the chart and perhaps zoom in and zoom out. What software are you going to use or at least, what features do you require?

* With regards to websites and managing the information flow, it is important to identify what information you need and where you will source it. With RSS feeds now available and people 'blogging', this is becoming easier and easier. What information do you really need to trade and what information is for interest only but doesn't impact on your decisions?

* There are many and varied stockbrokers available to individual traders. With the rapid expansion of the Internet over the last decade, the stockbroking industry has changed considerably. Which broker accounts do you already have and what additional accounts may you establish? What is each of the accounts for?

* The final step is to document your thoughts and answers into a written trading plan. When you don't have a written plan, even though you have developed a plan, it is too easy to drift away and go back to old habits. Having the written plan provides you something tangible – something you place your hand on, which will guide you to making the right decisions.

Consider the difference between knowing what has to be done and what you want to do. In trading, what has to be done is always the right choice, yet if you don't have a plan, you can easily decide with what you want to do, instead.

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