



Our Mission

Developing a community of successful Forex Traders

www.4x4u.net



Create a Wining TRADING PLAN

A Step by Step Guide

By Jay Lakhani
Author and Trader

"The most important element of a **Master Trader** is having a **Trading Plan**. **Amateur traders** have trouble making entry or exit decisions; they are totally confused because they really don't know what they are doing. They **do not have a plan** and a **set of rules** to guide them. And when they make a decision they are often wrong!"

**By Jay Lakhani
Author and Trader**

Creating a Winning Trading Plan.

A trading plan is perhaps the most overlooked trader's tool. As a matter of fact the majority of traders do not have a trading plan. No wonder 90% of traders lose money. Many people are just too lazy to sit down and draw a plan. In fact 50% of you reading this may NEVER sit down to write a plan.

Once you have written a plan, you must have belief that your plan will work, otherwise there will be no discipline to follow it. Discipline is the key to succeed in Trading, just because you have a trading plan does not mean that success is assured, but without a plan you are likely to fail.

I always say to my students, that when you write a plan, write it as if your trading plan will be scrutinised by your boss and that your job will depend on it. Be very detailed and realistic in your plan, often I have seen that people are seeking to gain 500% return on investment on a monthly basis! This is unrealistic, even allowing for a 100:1 leverage!

Also many traders have so many strategies and countless indicators to work on, this leads to indecision and confusion – Analysis Paralysis. You must limit your strategies to a manageable level.

So what is a strategy? These are absolute set of rules which you follow each and every time you see a setup or a chart pattern, so your golden rule should be **No Signal – No Trade!**

You must have sound money management rules, because this will ensure success. You have to define acceptable loss, identify your entry and exit levels, and carefully calculate your risk/reward ratio. Sound money management principles will help you to minimise your losses, maximise your gains and keep you in the game

Trading the markets should be treated like a business; it does not matter whether you trade full time or part time. Just as a business has plans and goals so should you as a Trader. You need to define your goals, identify your expenditure and lay out your trading strategies that you will use to reach these goals.

Your trading plan must be followed with absolute discipline in order to succeed. The trading plan should be tailored to suit your personality, ability and resources. It should be **YOUR** plan and unique to your style of trading.

I will go through a template that I use as part of training Forex traders.

Your answers should not be vague and a simple one liner. The more you expand with relevant information, the more it will help you in your trading.

There is no room for ambiguity in your plan. Also where possible, always define and qualify your statements.

This usually means posing questions – what, when, where, why or how.

For example if you were trading the EUR. Why the EUR and not Cable?

What are the components of a good trading plan?

1. Have you got the skills to be a Trader?
2. Mental preparation - how do you prepare mentally to trade?

3. Set risk level – your attitude to risk
4. Set goals – what targets do you intend to achieve
5. What research and homework you do before entry and exit? – Do you have a reason to trade?
6. Your entry and exit rules – have discipline to stick to your rules
7. You should review your day, week, month and year – write your conclusions in your trading diary
8. Record keeping – you should be able to compute your financial accounts, showing your net profits
9. Trading journal? Do you keep a record of all your trades? With reasons?

Quality questions will lead to a good trading plan

"A major stimulant to creative thinking is ***focused questions***. There is something about a well-worded question that often penetrates to the heart of the matter and triggers new ideas and insights."

- Brian Tracy.

You passed a major hurdle, when you made a **decision** to create a trading plan. This is an important step in itself.

In order to create a winning trading plan, countless hours must be spend on planning itself. Planning is made easier if you are focussed, and motivated. This will come with quality questions; as a result you will get quality answers. If you ask you shall receive.

Your business as a Forex trader will succeed, only if ask the right questions about markets and strategies, and learn from it.

" *He who asks a question is a fool for five minutes; one who does not ask a question remains a fool forever.*" - **Chinese Proverb.**

The human brain is the most powerful computer and no machines can ever replace it, yet sadly we do not use it to its full capacity. If you are not doing well as a trader than what question will you ask yourself? The answer of which will determine your future!

For example you could ask, what plan of action do I need in order to achieve my ultimate goal of financial freedom through trading? The question you will ask will determine where you focus, how you think, what are your feelings, and what will you do?

One trader I mentored recently asked a quality question, how could I succeed while 90% of traders are failing? How can I turn it around? He asked this question with great intensity and expectation. He went about writing a book for himself on a trading plan, using the detailed template in the Bindal FX home study manual (www.4x4u.net). The end result was a 100-page trading plan document. This trader has not looked back! It all started from a focussed quality questions. Quantity is not important, but what is important is the relevance of information in your plan.

Many traders want to achieve financial freedom, being their own boss, than why don't you get leverage: ask yourself, " If I don't become a master trader, what price will I have to pay, what will it cost me in the long run and what impact it will have on my life? " and " How will my life be transformed, if I get this right?

I do hope that this will get your brains ticking..... I will now go through a trading plan template; your plan may include the following;

TRADERS BUSINESS PLAN

For the 12 months Ending – 31st December 2005

Any Company Investments Limited

***Anywhere
Anytown
London
United Kingdom***

***Tel: 0123456789
Mob: 0123456789
Email: xxx@xxx.com***

20th December 2004.

Trading Plan

1. Cover Sheet

This page would contain your business name, the period that the trading plan cover and the date it was prepared.

2. YOU – discover yourself

In my opinion it impossible to draw up a successful trading plan without getting to know the psychological make up of yourself, for example how you would react to profit or loss. What does success mean to you? How would you feel if you failed?

Examine what motivates you and why do you want to become a trader? Are there any other alternatives to you trading? Trading is not easy, as 90% of traders don't make it, probably the highest failure rates in business. What are your strengths and weaknesses? How can you keep yourself mentally relaxed? What do you expect from Trading? Is it financial passion or some other reasons?

YOU are in control! And YOU are responsible for your actions, one of the thing that can ever stop you from succeeding is YOU, your thoughts and your beliefs. When you fail, than take full responsibility, it is sometimes so easy to blame any and everyone, except YOU.

3. Your Trading Name

You should treat trading as a business, and operate exactly like any other business, so you should start off by giving it a name

4. Your Business Philosophy

The analysis of your beliefs for the way you trade, the disciplines comprising logic and ethics of your trading.

Example – “ I am dedicated to make my business profitable using simple and sound trading strategies. From my business profits I would like to contribute to the culture, benefits and welfare of people throughout the world. I will contribute 5% of my profits to worthy causes”

4. Mission for The Business

Why not have a mission statement for your business? A mission statement helps to clarify what business you are in, your goals and your objectives.

The mission statement reflects every facet of your business, for example the range and nature of the instruments you trade, growth potential, technology, and community.

An effective mission statement should be able to tell your company story and ideals in less than 30 seconds. For example the Bindal FX mission statement is "developing a community of successful Forex traders"

5. Business Goals

A clear vision of what you want to accomplish will help you achieve your dreams.

Every Trader should have goals. But do you know how to effectively accomplish them?

Within this section, your goals could be of profit related or non-profit related, for example

Examples of non-profit related goals;

- Go to a trading workshop or seek a mentor
- Read xx new books to improve my trading knowledge
- Setup a new trading system

Examples of profit related goals

- Reduce overall trading overhead costs by X%
- Outperform my trading benchmark by X%
- Making half a million in trading profits

6. Which Markets will you trade

Successful traders are clear on which markets they want to trade.

Sometimes many traders trade too many instruments or in case of Forex, too many currencies, I am not saying that it is not possible to do it, off course it is, but firstly you must establish a track record of successful trading a few or maybe just one currency.

7. Your Resources - technology,

Put your goals in perspective by using quality software and data feeds and good computers with sufficient memory and RAM.

- What Trading platform, research & charting packages do you need? If you are serious about trading than you should consider subscribing to a package that provides you with all the tools. Also consider a real time data feeds
- Computer Hardware – Serious traders need dual or triple monitors to trade Forex. Also decide on the minimum hardware configuration necessary to run a business, you would need a high memory and processing power. Seek the guidance of your IT consultant.
- Communications – These days High-speed broadband connections has become a norm, however you must also consider an emergency/backup in case of failures.
- Training – This section should detail what training you intend to take as an ongoing basis, i.e. newsletters, tip sheets, publications, or trading rooms. Make sure that you review these, as a lot of useful information is provided on this, which can tremendously improve your knowledge.
- Forex Forums – These forums are very useful source of information, but you must ensure that you do not get carried away, as the more time you spend here may mean that you are not trading. I find some traders spending all day on these forums and not enough time on trading. One member I had mentored recently, jumps from one forum to another, looking for secrets, entering into debates – ending up writing over a thousand posts! Can you imagine how much time is wasted on this? Definitely share your thoughts and ideas, for I believe that “ you give one and you will receive tenfold in return”

8. Homework & Research

Before you start you need to do your homework.

If you were embarking on a journey, to a destination you have never been before, would you not plan the journey? So why should trading be any different?

Plan your day, also be sure to factor in time for breaks, lunch etc. This should be away from the computer.

Within your plans make sure you have reviewed the charts in your watch lists, your alerts list, be aware of major fundamental announcements due, etc.

9. Risk & Money Management

In this section, you should identify how you would minimise loss and maximise profits.

- What is the maximum position for a single trade, in terms of capital that you will trade. You will not want to expose too much of your capital on a single trade. So for example if your capital was £10,000, how much of this will you want tied down to one trade? For Forex trading, I will commit on average 5% of my equity for one trade. This will determine also your trade size. What percentage you use, depends on your risk profile.
- What is the maximum amount you are willing to lose for a single trade? Many authors tend to quote anything between 0.5% to 2% of your equity. Some books quote more. You must carefully think about this and work on a realistic figure. A very tight % may result in a tight stop resulting into an early stop, or a small order size. I have a very carefully thought out entry trade, my golden rule is – No Signal, No Trade, therefore I tend to have a very high percentage of winning trades, so I am happy to go with dollar loss amount of 5% of equity. You should set this amount based on your risk profile.
- When will I take my profits? Many books suggest that you should take profits as soon as your target has been achieved, I choose to differ and there are many schools of thought on this topic. In the Bindal FX home study course, our advice is to take incremental profits when you can. This is how professional traders run their business. Forex markets trend very well, and often I see that traders snatch their profits when the big trend is just about to start, and they will miss on the big move. Don't forget the golden rule; "The trend is your friend", "Trade with the trend"

10. Trading Strategies

Strategies are a result of meticulous analysis – it gives you the upper hand.

What setups will you use? These are the set of characteristics that enables you to identify a high-probability trade, for example at the end of a downtrend, you could see a confluence of events, such as a Hammer at the end of a run, which bounces strongly off a pivot point and also a Fibonacci retracement level, forming a double bottom.

How will you find the setups – most software has scanning features, and also alert system, you can also program in certain features i.e. a candle pattern, or an alert when a crossover happens.

Detail these strategies, with reference to charts and commentary. One trader I mentored last year ended up with nearly 25 pages in this section. Meticulously detailing each strategy that he will use with setups.

For the past 6 months, this trader has managed to gain over 1,000 pips per month on a consistent basis.

11. Follow Up & Review

Always have regular ongoing reviews built in your plans. i.e. end of the day, weekly, monthly and annual for example.

Did you record all your trades and have a detailed trading journal. How were the trades, did you trade according to your system?

Having a trading plan enables you to discipline to a set off rules. Also regularly compare your actual trading results with your trading plan

12. Financial Information & Record keeping.

Scared of numbers?

I have rarely seen Traders having detailed financial information. You should not be scared of numbers, but should maintain strict accounting records. Seek the services of a professional accountant in this matter.

I strongly recommend that you maintain a set of books, which records all your income & expenditure for the business, and a ledger, which records the regular transactions taking place within the account headings.

Your accounting records should comprise of the following;

- Actual financial statements
- Balance sheets
- Cash flow statements

Before the year starts, most professional traders will have a projected statement for the above. They set themselves a set of goals.

Also you must have a clear record of all your trades, this can be done by way of a trading journal, for a template please visit our website, <http://www.4x4u.net/Education.asp>. You should also keep a summary on an excel spreadsheet.

13. Golden Trading Rules

Have top strategies and rules, excitement alone wont guarantee success, so follow your golden rules to make your trading more bankable.

For example one of your golden rules could be, *Trade with the trend: No Trend, No Trade! Or Plan the trade – Trade the plan! Buy at support, sell at resistance!*

The list is endless, but you should ideally get a short list of at least 10 rules. Display your golden rules in your office or trading area, and read it every day.

GOLDEN TRADING RULES EXAMPLES

1. No Signal – No Trade
2. Plan your trades. Trade your plan
3. Keep records of your trading results – Keep a trading journal and your Income & Expenditure from trading.
4. Maximise profits, not the number of trades
5. Be patient enough to wait for good trades.
6. Be patient enough to avoid closing profitable trades too early
7. Cut losses early, protect profits with trailing stops
8. Focus on BIG movements. Don't try to catch noisy small fluctuations.
9. Pay attention to price patterns and formations.
10. Don't take the market home
11. Professional Traders buy into bad news and sell into good news.
12. Professional traders have a well-scheduled planned time for studying the markets.
13. Professional traders isolate themselves from the opinions of others.
14. Make your own trading plan
15. Maintain discipline to be able to constantly suppress bad habits.
16. Success come with dreams - Dream big dreams and think tall. Very few people set goals too high. A man becomes what he thinks about all day long.
17. Strictly follow my plan and manage my risks
18. Only I am responsible for my trading result. So If I go wrong, I am to blame, Not the market, not the brokers or friends.
19. I will not use excessively tight stop losses – I will spend more time identifying a good entry point, than I will be patient and give the market some freedom and place my stop losses carefully.
20. Always discipline yourself by following a pre-determined set of rules.
21. Know your self - The key to successful trading is knowing yourself and your stress point.
22. Belief - You must believe in yourself and your judgement if you expect to make a living at this game.
23. I will commit my mind to the POWERFUL market trend.
24. I will accept losses and move on. Losses are part of the game.
25. Trade with the Trend – I will not try to outguess the markets – I will wait for the reversal to come
26. I will break my trades in 2 or 4 parts and than withdraw profits gradually, whilst moving the stops on the profit.
27. I will not follow the crowd, because they are usually wrong.
28. Big movements take time to develop, so I will have patience and wait for a perfect setup.
29. I will avoid negative friends – I have learnt the hard way. They will pull you down at every available opportunity.

30. Money can be made everyday in the market. There are tons of opportunities, you have to spot them.
31. Forget the news, remember the chart – I do not have the resources and the expertise to know what particular news will have an impact on the price, but the chart already knows that the news is coming.
32. When there is a strong trend in place, I will buy the first pullback from a new high, and Sell the first pullback from a new low.
33. Price has a memory – what did the price do the last time it hit a certain level? Chances are it will do it again.
34. Beat the crowd – I will take their money before they take mine. When I trade I am really trading against a crowd, not the currency – that is just a medium.
35. Trade with a plan-not with hope, greed, or fear. Plan where you will get in the market, how much you will risk on the trade, and where you will take your profits
36. Watch for divergences in price action with the indicators, such as MACD, RSI and Stochastic.
37. You are your biggest mentor - Analyse your losses. Learn from your losses. They're expensive lessons; you paid for them. Most traders don't learn from their mistakes because they don't like to think about them.
38. Always use stop orders, always...always...always.
39. Never add to a losing position.
40. Fundamental News – Be interested in the market's reaction to news rather than the news itself