

Guide to:



# CREATING A TRADING PLAN

with trader

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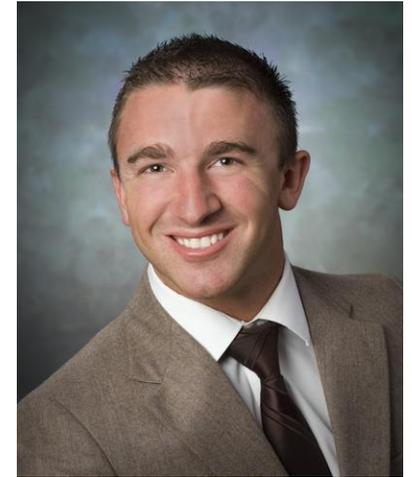
## DISCLAIMER

Trading carries a high level of risk. You are subject to lose all or more of your original investment. Don't trade with money you can't afford to lose or money that if lost, would affect your current lifestyle. The information in this presentation is for educational purposes only and is not intended to be financial advice.

The purpose of this webinar is to help you better understand the markets and improve your skills as a trader. I believe a balanced life leads to a healthy life and our attitudes influence our behavior. Trading is a small, but meaningful part of the bigger picture.



# ABOUT ME: TIM RACETTE



- Full Time Trader
- Chicago-land Native
- Speaker at Traders Expo
- Blog @ **EminiMind.com**
- Race Mountain Bikes



*“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...



# TRADING PLAN OUTLINE

- **Mission**
- **Market Theory**
- **Goals**
- **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?
- What drives you to succeed as a trader?
- What makes you different than the thousands of other traders who wish to become successful?

## ○ **Time Commitment**

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



# 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

## ○ **Time Frame**

- Match time frame to personality and goals
  - Day Trader: Intraday trades only
  - Swing Trader: Hold overnight positions
  - 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



# GOALS

## ○ Personal

- Balance trading with personal life
  - 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

## ○ **Example 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

## **Example 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
- 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.
  - Trading 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



# 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

## ○ **Example Rules**

- 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
    - Buying strong stocks on pullbacks in an uptrend
    - Fade opening gap
    - Buying/selling at halfway back
- Be selective!
- Define entry, exit, and profit target
- Patience! Use a trade setup checklist
- Define Indicators
  - Market Internals
  - Heikin Ashi
  - Tick Charts
- 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

## ○ Example Market Notes

- Indices closing price and volume
- Leading sectors and industry groups
- VIX, Oil, Gold
- Market Breadth

## ○ Emotional Notes

- How did you feel...
  - Entering the trade?
  - During the trade?
  - When the trade went against you?
  - When the trade went in your favor?



	1993	1994	1995
43,08%	40,04%	40,04%	
5,7%	11,59%	7,35%	6,75%
6,4%	13,56%	8,67%	7,65%
4,5%	30,36%	20,04%	17,59%
5,51%	22,22%	16%	13,65%
1,59	1,56		1,6
0,92	0,90		1,1
3,56	3,42		
73	80		
144	133	134	
26,22%	23,41%	25,21%	2,9
58,24%	55,51%	56,75%	5
75	9,19	8,73	6,04
5	0,28	0,29	0,11



*“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

## ○ Routine

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

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

- Read rules
- Pull up economic calendar
- Ask yourself a series of questions
  - What's the larger trend?
- 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...**

- Go through nightly checklist
- Print intraday chart and highlight entries and exits
- Write narrative recapping the day's action
- Exercise
- Verbal recap with trading partner
- Review notes
- Fill out trading journal



# 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

## ○ Important phone #'s

- Broker/trade desk
- 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

- The [EminiMind](#) Blog
- 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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Real Investors. Real Ideas. Real Time.