

THE NEED TO MAKE A PLAN

A plan is a series of logical steps to achieve a particular outcome.

I cannot think for you, I can only convey some of the aspects for consideration when developing your own personal trading objectives. A trading plan is obviously not going to be the same as planning a holiday or building the Pyramids, it has its own unique set of considerations with the shared facts of having a start and an end with the variables contained between these two.

Ironic or not we begin with the end. We consider our desire, vision, or ambition for a point in time in the future be that 1 year 2 or 3 years or even more. Whatever this maybe we are looking for a sum that will sustain us comfortably bearing in mind inflation and taxation. Then we start to break it down into the details of the various steps we need to produce this outcome of income. At this stage it is merely a number, pie in the sky stuff, the breakdown will reveal the feasibility of this number.

An often-asked question is where we would like to be in X years ahead. The asker is not interested much in the answer, the question is more geared towards finding out the character of the person whether they are goal seekers or flippant. This is because it matters even on a day-to-day basis if we have problem solving skills or if we couldn't care less and leave solutions to others. Who would you hire?

64K. What makes this number special will be obvious to some in that it is a doubling number beginning at 1K in other words we go 1, 2, 4, 8, 16, 32, 64 and we have doubled 6 times over. I will leave that for now and look at the time.

Each year we have a rounded number of about 200 days to trade allowing for weekends and the odd day off to go fishing. This is very handy because I'm sure most people will be able to divide this by two and come up with the number 100. Isn't that interesting, a doubling of our account requires the same number as a percentage i.e., 100%.

Those of you who are mathematically astute will see that 1% per day = 100% in 100 days. Well go to the top of the class and give the pencils out then present yourself a plastic medal and a paper Giraffe.

Now it gets technical, what is 1% of 1000. If you don't know then hold up 1000 fingers and divide by 100 and the result should be the same as you have toes i.e., 10.

So, to put a dollar value on this, if I make \$10 a day for 100 days, I will have \$1000 profit and my account will now be \$2000. If this is continued, then I need to make \$20 a day for the next 100 days and produce \$2000 in profits and my account would be \$4000. That would take care of year one having used up the 200 days, we still have two more years to go to take care of the 8, 16, 32, 64.

Now we ask is making \$10 a day feasible for that first 100 days. How much is it going to cost us in terms of lot sizes to place on a trade. A pip is no more than the distance price moves, it has no value other than the value we personally place on it. A person saying, they made ten pips means absolutely nothing unless we are told the value of the pip. Even if the person places a value of X on the pip, we still have no idea what this means regarding the percentage of profit they made on their account.

In our case here we may assume ten pips = \$10 = 1%. This is the same as 20 pips = \$10 = 1%. This is because we have not determined a value for the pip. It works out to be \$1 per pip is a good price but how this is determined needs to be explained.

There are quite a few variables here with people's base currencies and the levels of leverage they have from their respective brokers. My base currency is AUD, and my leverage is 30:1 so I will deal with this.

\$1000 will buy me at least \$1:50 per pip but if I lose some of this then I may not be able to rebuy the same amount because my account has diminished. I need a buffer to cope with losses and at the same time I need to determine if I am in the right business, losing the entire buffer would set off alarm bells for considering if I have a future in this game.

A buffer is the sum of money contained within our account which we are prepared to lose. We should not trade with money that is likely to cause us hardship if lost. Therefore about 2/3rds of our account is for trading and the rest is reserved as the buffer.

We'll look at that 2/3rds of \$1:50 is \$1, just about the exact sum we are looking forwards to trading with. \$1 for ten pips = \$10 which is 1%.

We have confirmed the target is feasible with our \$1000 account and there is no reason we cannot achieve our desire in the not-too-distant future.

Account size \$1000

Pip target = 10 per day

1% x 100 days

Trading \$1 per pip.

1/3rd buffer.

Long term pip distance = 6000 pips.

Get's us to \$64,000 per 100 days.

Trading \$1 per pip is fine but it would be better to scale this is in the form of two 50cent trades keeping the risk as low as we dare and never ever adding to a losing trade. Sometimes we may let the 50cent trade run to 20 pips and still get the desired outcome of \$10. At other times we may even use some of the buffer and get 3 x 50cent trades on compounding our profit greatly.

Ten pips of profit for \$1 is only the minimum expectation per day, we could let this run to 50, 60pips or whatever on a good day. A nice return of \$50 for a \$5 risk is not something to be sneezed at, repeated over and over it would certainly shorten the 100 days.

Trading the plan

Patience is required to await the desired signal to take a trade. Nothing burns a hole in a trader's pocket faster than impatience. Once the signal is acquired it should not take more than an hour or so to pocket your profit. This is where reading a book or watching a movie comes in handy to past the time.

Many traders just jump in at any time in hope of the stop not getting hit, indeed if they even have a stop. This can lead to many hours of fruitless trading and destroys any hope of having a decent efficiency ratio. The best approach by far is to wait and enter on the signal, spend as little time in the market as possible to reach the objective and then quit until the next day.

Winning is a habit well worth developing and sticking to low-risk high-reward is putting the math on your side assisting you to reach your goals. The light is always seen at the end of the tunnel because you are tracking your fiscal trading plan, so you always know if you have done enough on any particular day or if you feel comfortable with doing a little extra. You may have a little catching up to do on occasion to keep on track, but you will always know where you are at with your dream.

Do not make a habit out of trading, it is the habit of winning you want to nurture in a most efficient manner. While we can trade outside our normal hours, we should not expect too much from doing so. We may manage a couple of 50cent which would make up our 1% but generally it takes a fair amount of trading time to do it. Of course, some people have no option but to do this having other commitments during the London session none the less 10 pips can be made according to the fiscal plan.

Summary

Get the timing and direction right, trade the appropriate signals for the desired pips, limit the risk with a 2-stage entry and keep the stops tight and mobile to allow trade to run to a possible plotted target. Patience and persistence will carry the day, changing strategy will in most cases be detrimental to the outcome.

There will be days when the price just takes off and you will score a nice percentage increase which in turn will shorten your 100 days so you can begin your next level earlier.

There should be no evidence in your account of a large drawdown because this would mean you are not paying attention to the requirement of a limiting stop.

Note

I have tested this for myself and managed to double my account in 34 days much quicker than the required 100. My largest win was 8.6% and I never failed to make at least 1% on any of these days. I had a few stopouts for minor losses which were easily made up.