Developing your Trading Strategy

eBook

Always have a plan

It is very important to prepare yourself before making any trades. Do not underestimate the importance of having a plan.

By having a plan:

- ✔ You minimize the effect of your psychological biases.
- ✔ You can clearly define entry and exit strategies.
- ✔ You can compare your trading history to your plan and be able to address your weaknesses and improve your strategy.

The plan blueprint:

- Identify the market trend. Know your fundamental story. Are those two pointing in the same direction? Do your fundamental and technical views confirm each other?
- Push the trading button as soon as the price reaches your entry level (or placea pending order at that level).
- Mark your support and resistance levels in order to be able to identify reasonable entry and exit points.
- Mark the point you are willing to enter a trade.
- Ask yourself: “How much money am I willing to lose today?”
- Calculate your trading size in a way that if your stop-loss is hit, your loses will match the answer of the previous question.
- Mark your support and resistance levels in order to be able to identify reasonable entry and exit points.
- Place a stop-loss at a level beyond which your view is proven wrong.
- Why have you rejected any contradictory information?
- Set a reasonable take-profit target.

Emotions & Trading

As we noted so far, it is very important to be educated, informed and disciplined before you decide to join the trading world. Otherwise it's like gambling. What we haven't discussed so far is that an extremely important aspect in trading is managing your emotions and developing the proper trading psychology.

Even if you have the perfect plan emotional trading can be disastrous. **Why?**

- You doubt yourself and hesitate to enter the trade when the price hits your entry level.
- If one trade is profitable, you might exit well before the price hits your preset take-profit target. You want to minimize your anxiety level triggered by your mind asking questions like "What if it now turns the other way?". By taking a small amount of profits you consider the trade as successful.
- On the other hand, when things turn bad and you are losing money, you tend to leave your losing positions open on the hope that eventually things will turn in your favour again. If you don't admit that you were wrong, your losses may become unsustainable.
- There are trading principles that come in contrast with the human nature. For example, one of the main principles in trading is to "Follow the trend". Although this may sound easy, people find it very hard to stick to that rule. If prices are in a downtrend, many are lured to buy as the instrument becomes cheaper. The trend continues and they keep buying on the hope that the price is too cheap to fall further. They somehow believe (or hope) they can catch the bottom. So, they end up with a big exposure in the opposite direction of the trend.
- You boast when you make money, and at some point you think you have mastered the market, but when things turn bad and you lose large amounts, you blame the market and anyone else but you. By doing so, you can't identify your mistakes and weaknesses, and consequently, you can't improve.

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