Trading Tips

More Than Trading

Chapter 1

PLAN YOUR TRADING STRATEGY AND FOLLOW IT

Tom Seaver → In baseball, my theory is to strive for consistency, not to worry about the numbers. If you dwell on statistics you get shortsighted, if you aim for consistency, the numbers will be there at the end.

While trading statistics are critical during the back-testing stage of a trading system and while assessing real time trading results, a trader should not get hung up on them. In other words, during the course of a trade, the trader should strive to be consistent with his methodology.

A baseball player doesn't go up to bat thinking "I'm a home-run hitter, I hit a homerun every 14 at bats, this is my 14th at bat, therefore I should hit a home run." He goes up looking for a good pitch to hit. His stance is the same, his swing is the same, and his entire approach to the game is the same.

A trader has to have this same attitude. He must have a sound methodology and he must follow it everyday. This is not to say he doesn't make minor adjustments to the market conditions. The key is he maintains his core methodology.

Everyday he must come in with a plan. This includes having a set of rules. The rules can be based on technical indicators, chart patterns or economic events. The Auto-chartist program, while not a trading program per se, gives the trader an op-portunity to develop a set of rules or steps he can follow in an attempt to maximize the programs huge arsenal of trading patterns and quality indicators.

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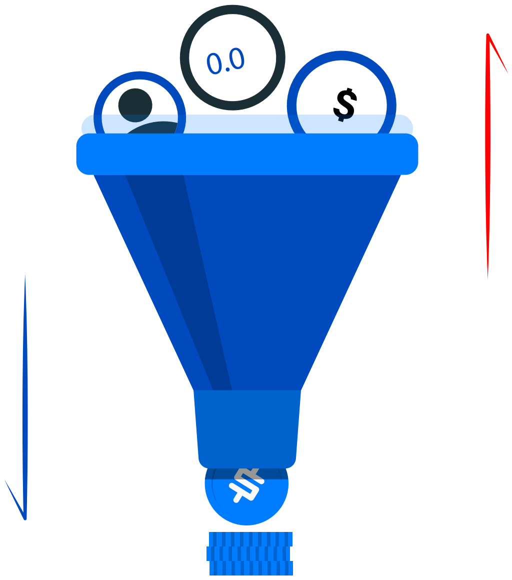


If he knows he has done his home-work and he knows his Aver-age Profit Per Trade, the Average Loss Per Trade, and Expec-tancy, he should not try to trade to meet his statistical norms, he should just follow the system. After all, his statistics were created as a blend of his actual trading results.

A baseball player is focused on hitting pitches in his strike zone. Although there is a uniform strike zone, each player has his own strengths and weaknesses depending on where the ball is thrown. Traders must strive to find their strike zone. This can be created by applying Auto-chartist's Quality Indicator filters. Using this tool properly, a trader will be able to search for chart pattern's which fall within his strike zone.

All patterns may not suit the personality, account size or trad-ing style of some traders. Therefore the sooner a trader real-izes the "pitches he can hit", the more success he may have since he is only swinging at or entering trades on chart pat-terns which he knows suit his particular style of trading.

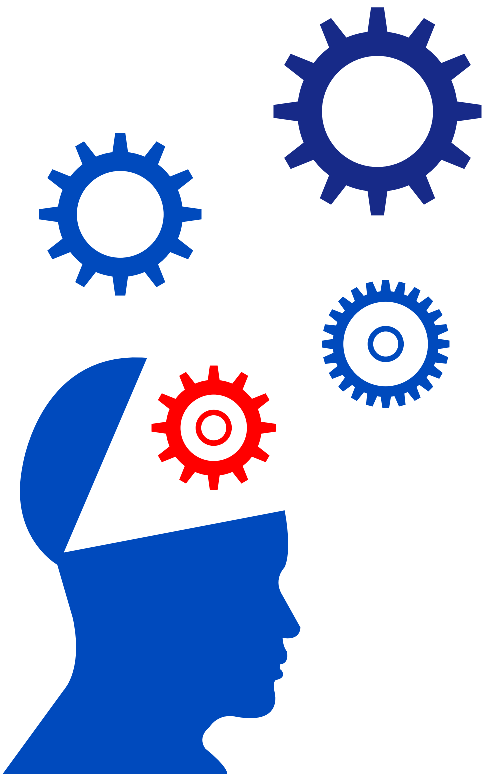
In conclusion, while trading statistics are an important mea-sure of success, it is more important to remain consistent in your trading approach and let the numbers take care of them-selves.

Chapter 2

DON'T IMITATE OTHERS, DARE TO BE YOURSELF!

E.E. Cummings → To be nobody but yourself in a world which is doing its best, night and day, to make you everybody else means to fight the hardest battle which any human being can fight; and never stop fighting.

It is often said that trading is 90% mental and 10% mechanical. The Autochartist program can help with the mechanical side by identifying chart patterns. This means that you will have time to work on the mental aspect of trading. Like the above quote implies, as a trader you must be aware that trading is essentially a fight between you and those who want to take your money. While this fight is generally fair and necessary, one must avoid the inner fight. This includes the battles inside your head that can often lead to poor trading.



One way to stay inside of this comfort zone is to trade with the proper amount of capital required by the trading system you choose to follow. We already know that trading systems go through streaks. Therefore it is possible that you can draw-down your account far enough to prevent you from making a recovery. This is usually caused by trading an account that is undercapitalized. Daring to be your-self means admitting that you don't have the risk capital you need to trade a particu-lar strategy. This doesn't mean that you should not trade, but what it means is that you should create filters to help find the trades you can afford to execute.

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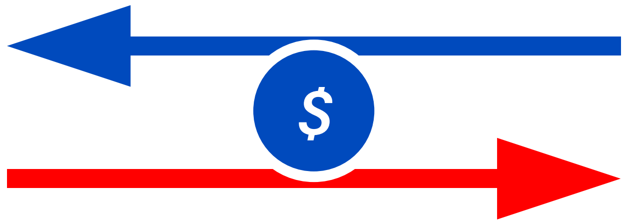
Besides taking trading set-ups which are too expensive rela-tive to the size of his trading capital, a successful trader must adopt a trading size that allows him to be himself. There is nothing wrong with trading a one-lot position while you are trying to establish yourself as a trader. The temptation that you must fight usually comes after a series of successes since the natural inclination is to jump to a position size that your ac-count cannot handle. This is can also be caused by traders who are trying to compete with their better capitalized best friends.

Learn to be yourself and trade within your resources. This means monetarily as well as mentally. Find your comfort zone and stay within it until you can get a mental grip on what trad-ing is all about. Train yourself to develop the emotional and psychological skill set necessary to trade successfully.



In order to overcome the inner struggle to grasp trading, of-ten a trader will seek outside help from either a mentor or a trading book. This is fine if the trader uses this information to create the knowledge he needs to be successful. This can be a bad thing if the trader tries to mimic the mentor or the au-thor of the trading book. Although many of these books offer sound advice, most of them deal with the mechanical side of trading and leave the mental side untouched. A trader must realize that the mechanical side of trading is just a small part of the game and that he must master the mental or psycho-logical side.

What it boils down to is discipline; the discipline to know your strengths and weaknesses. This means accepting the fact that inside of your head there exists a comfort zone. Daring to be yourself for the most part means that you trade within this comfort zone.

Chapter 3

BEING ABLE TO REBOUND FROM A DRAWDOWN IS IMPORTANT

American Proverb → Cut your losses and let your profits run or give a man enough rope and he'll hang himself.

Let's face it. If you trade the markets long enough, you will have a drawdown. It is inevitable due to the streaky nature of trading systems. If the drawdown occurs from day one of trading, it is possible that your account can reach a level that prevents you from making a recovery. Therefore it is highly suggested that you avoid taking losses that are too large relative to your account size. Remember, "He who fights and runs away, lives to fight another day."

This means that you must follow a position sizing equation that limits the amount of losses per trade to a percentage of your total equity. This methodology doesn't prevent a huge drawdown, but it does slow down the rate of decay in an account because during a losing streak your positions as a percentage of risk of your account size keep getting progres-sively smaller. This technique will only work if the system has a positive expectancy.

If you follow a well back-tested system or a system that has a well established real money track record, then it is highly suggested that you follow the system. This means taking each trade and not fading the system. Once again this is the reason for follow-ing a system. You never know when a winning streak will start so you cannot afford to pass on a signal because it could be the one that starts the new winning streak or ends up to be a big enough winner to offset the recent losing streak.

Day-traders and scalpers have a different way of limiting loss-es. First of all, most are trading market set-ups or patterns generated by the Autochartist and not necessarily a trading system. The success of this type of trading lies within the trad-er himself. Experience plays a major role in whether this kind of trader succeeds or fails. In this case, it is therefore neces-sary to set daily loss limits. For example, a day trader may decide that after a $500 daily drawdown, he will just shut it down for the day.

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This decision usually comes from the trader knowing himself. Since he is not following a system per se, he isn't waiting for the next signal so he can just shut down his computer and comeback the next day. Once again it takes discipline to walk away from the markets when experiencing an intraday draw-down.

Since so many chart patterns and potential trading opportuni-ties are presented each day by the Autochartist program, it is suggested that traders set daily limits. It is nearly impossible to create a trading system with chart patterns alone, so your success or failure will rely on your ability to identify chart pat-terns with high probabilities of success. You can't take every pattern so the proper use of filters will help you to eliminate the trades that don't fit your criteria. At the same time, you must realize that "the markets are like buses" and that oppor-tunities come along every day.

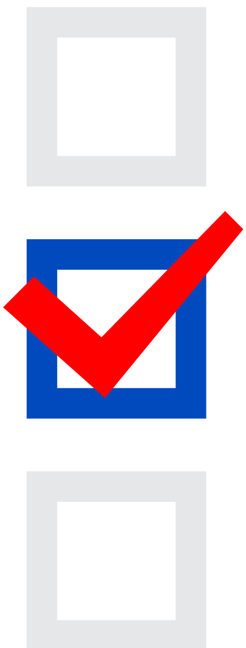
Have the discipline to follow your system if you are a "system trader", but remember to position size properly to slow down the pace of your drawdown. If you are a scalper or day-trader, set a daily loss limit and walk away from the market. Mar-ket conditions may have changed which make your particular trading style difficult or you may just be "off your game" for a day or two.

Chapter 4

TRADING SUCCESS WILL LEAD TO BIGGER SIZE

Edwin Moses → I overcame size with mechanics.

This quote by track star Edwin Moses brings to mind the similarities between athletes and traders. Mr. Moses wasn't a particularly big athlete. Some described him as lean and mean. What he lacked in size he overcame with proper mechanics.



He's also been quoted as saying, "I always got my work done before playing. I always had to keep improving my skills in order to remain competitive and keep winning. I never strug-gled with injury problems because of my preparation …".

Traders are often confused by the definition of success. Some believe it is putting on a huge position and catching a huge move. Statistically this is very difficult to accomplish. While few have actually accomplished this feat, most professional traders agree that you have to be active in the market, trade a system with a positive expectation and trade the proper posi-tion size relative to your account size. These are arguably the three items that you actually can control. The market controls the rest of the variables.

This being said, you must work on the mechanics of trading just like Mr. Moses suggests. He wasn't able to control how the other sprinters trained or how fast they ran. He could only control his technique and his training routine.

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Once the race started, all he had to do was apply all of the skills he had learned. Trading is the same way. If you are go-ing to use Autochartist as a tool, then you should learn how to use the program. Learn its strengths and weaknesses. Train or keep statistics on how it works to find trading patterns.

The discipline one acquires while working with the Autochar-tist software includes everything from picking a particular market, to choos-ing chart pattern, to finding a quality indica-tor. The key is to use the software to your advantage and to actually train yourself to identify the kind of trading conditions that suit your style of trading. Taking this first step is the key to developing the mechanics you need to compete with the other traders.

It is only after you have developed the skill set to trade suc-cessfully that you can earn the right to trade bigger positions. You may show success over a short period of time, but in order to up your size, you have to be able to prove statis-tically that you are ready to trade size. Not only does your account have to be profitable, but you must be able to show how these profits were achieved. This involves analyzing your Average Profit Per Trade, Average Loss Per Trade, Percent-age of Winning Trades, Percentage of Losing Trades and your Expectancy. The list can go on and on to include factors such as Consecutive Wins, Consecu-tive Losses and the lengths of winning and losing trades.

The point is that these items provide a measure for the me-chanics of your trading. Too many traders focus on the profits, but once you know what your trading skills are capa-ble of producing, then you can increase your trading size. Once you demonstrate consistent statistics over time then the only way to increase the robustness of your trading style or system is to increase your position size. This implies that you should stop looking for the big winners and turn your focus on taking small losses.

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