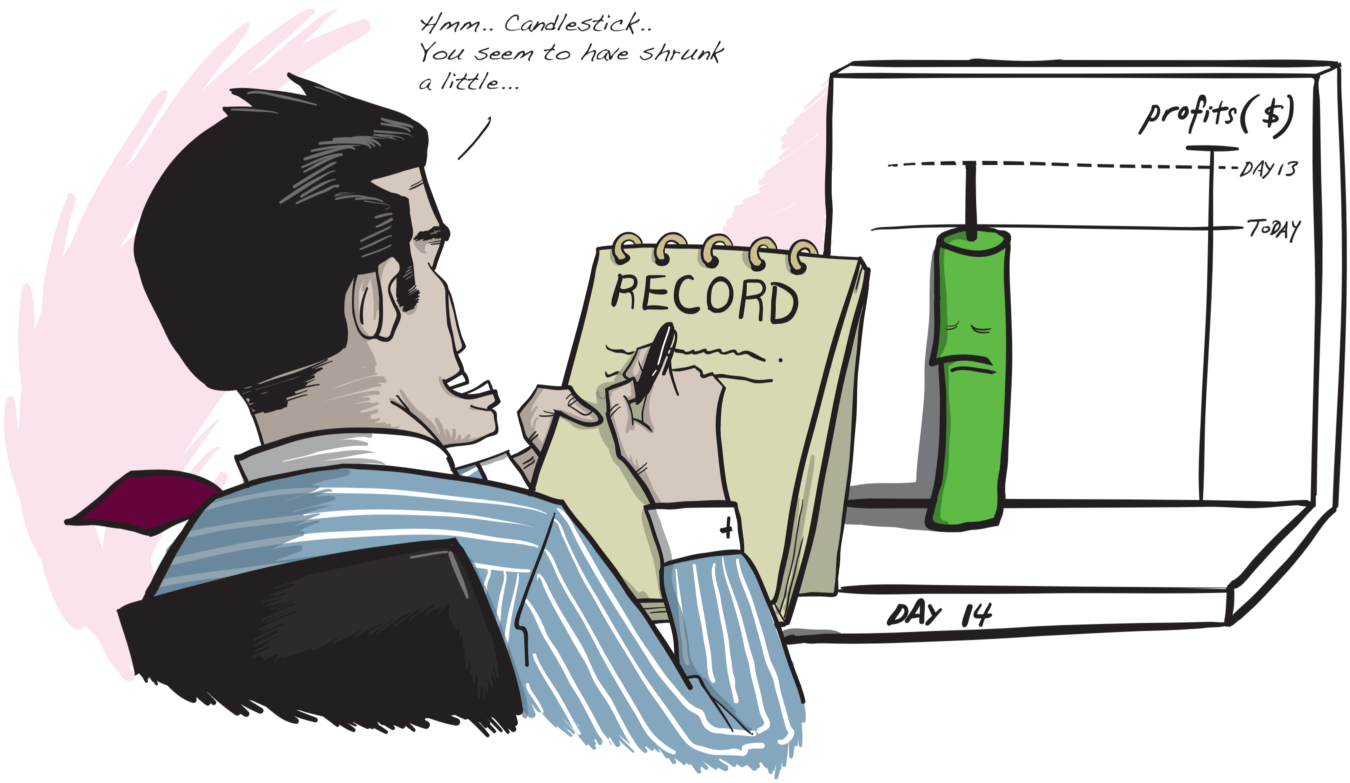

Record Keeping For Successful Trading

By Soh Tiong Hum

A trader should have a trading plan and maintain a trading diary, says our contributor.

In any successful enterprise, record keeping is an essential activity. Its functions are tracking, measuring and controlling. All these ensure that unfruitful or damaging activities can be identified and eliminated while productive activities can be duplicated.

Where trading is concerned however, few traders record their trades diligently. This is because of three main reasons:

1. Trading is often an individual enterprise.
2. There is no oversight since trading is done alone.
3. Trading platforms with real-time quotes empower and in fact encourage traders to take immediate but sometimes rash action.

This analogy is very appropriate: give a speed-hungry driver a Ferrari and allow him to make the traffic rules at the same time. Now obviously we know that's a recipe for a traffic accident but where personal trading is concerned, well there isn't a traffic department.

Therefore it is the individual responsibility of each trader to create an environment for fruitful and responsible trading. There is no big brother watching so you are on your own. Create a framework for tracking your own activity, measuring the success of each action taken and impose controls for success. This article will show you how.

FRAMEWORK OF TRACKING AND CONTROL

A trader should have a trading plan and maintain a trading diary. They are critical for success but unfortunately there is no formula. Rather it requires a personalized approach. We will still look at the critical elements so that you, the reader, can proceed to create your own.

THE TRADING PLAN

The trading plan is a big picture roadmap. Consider it your trading strategy. Here are the critical elements:

1. Describe the process required to reach the destination.
2. Describe the outcome of trading.

Here is a simple way to understand the trading plan. Imagine the strategy of an army. You will probably encounter the battle plan in this way: Men! Tonight we will drive out the enemy from there. We will set off with so many troops from camp at midnight and we will move along these routes. Then we will so on and so forth... By tomorrow morning, none of them will be left in the area.

1. DESCRIBE THE PROCESS OF TRADING.

In this portion, qualitative statements describe the step-by-step process to reach the outcome. As an example from the Forex Tflow® System course that I teach for forex trading, four statements describe the process. First, identify the flow and go with the flow. Second, identify the optimum zone with the flow. Third, identify market levels. Four, apply the triggers.

2. DESCRIBE THE OUTCOME OF TRADING.

In this portion, the outcome of trading is usually stated in quantitative or numerical terms. These include risk measurements and target achievement for evaluation purposes. It is very similar to management reporting and is that portion where the trader can sit back on a non-trading day and review his own performance.

THE TRADING DIARY

Now that you got your trading plan described, it is time to record your activities daily and check whether you have adhered to your plan.

Use a spreadsheet and create a table with the fields on top. Here are the fields that I use for my table:

1. Date and time of trade
2. The counter (stock) or pair (forex) traded
3. Direction (buy or sell response)
4. Entry level (in dollars and cents)
5. Stop or cut loss level (in dollar and cents)
6. Target level (in dollar and cents)
7. Was the trade with the trend (yes or no response)?
8. Was it done at the optimum zone (yes or no response)?
9. Was a proper trigger identified and used (yes or no)?
10. Did the trade fulfill a minimum 2: 1 reward to risk ratio (yes or no response, record also the accomplished ratio)?
11. Did I intervene of change the stop or target levels along the way (yes or no response)?
12. If the response to field 11 was yes, what was the reason? (Record two to three sentences to justify why)

Fields 7 – 12 onwards are very important because they recorded whether my trades followed the trading plan. Field 10 recorded the outcome of the trade. It is statistical and could be used immediately to measure my performance. Fields 11 and 12 recorded whether I have over-ridden the initial reasons for my trade and what the reasons for doing so.

SELF-EXAMINATION

I hope that the use of the trading plan was explained clearly. I also hope that the trading diary is useful to you. The last step is to take out the records and evaluate them regularly. How often? Doing it weekly is good for a start because you can go through them on weekends when there is no trading and when your actions during the week is still fresh in your mind.

When you conduct your review look out for the following:

REWARD TO RISK RATIO PER TRADE

A minimum reward to risk ratio is usually two (2) times. Two concepts are involved. The trader must establish a target level or earning before the trade and he must establish a maximum loss. The target earning must be at least twice as much as the maximum loss in order for the strategy to be robust. From a statistical point of view, if you insist on twice the reward versus risk in each trade, you will still be profitable if you get the trade right only 50 percent of the time.

APPLICATION OF STOP LOSS

Having a stop loss in any form of leveraged trading is a must. It also stops the trade from becoming a specu-vestor. What is that? What is a person who sets out to trade but when his position sinks into the red, he convinces himself to be an investor to hold on to the losing trade.

ADJUSTMENT TO STOPS AND TARGETS

Regular adjustment to the stops and targets of a trade throughout its duration is no good. It is a hint that you did not plan thoroughly before a trade, got cold feet or greedy along the way, or you did not have strong conviction to the plan. It could also be all of the above. If you realize that you are doing this often, be mindful to correct it.

To round up this article, I encourage everybody to treat trading just like the way you treat your career or enterprise. That is the right way to go. ■

Soh Tiong Hum is the founder of TerraSeeds Market Technician Pte Ltd, an education provider in strategies for Stocks, Forex, Futures, Commodities and Options Trading. He is a professional trader and also works with trainers to develop learning programs for technical analysis. He can be reached at paperandpencil@terraseeds.com