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SMART TRADING PLANS

**A step-by-step guide to developing
a business plan for trading the markets**

- ▶ Creating a trading system
- ▶ Selecting the right trading tools
- ▶ Managing trade entries and exits
- ▶ Understanding risk and money management
- ▶ Developing a profitable mindset

JUSTINE POLLARD

FOREWORD BY **EVA DIAZ**

SMART

TRADING PLANS

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**A step-by-step guide to developing
a business plan for trading the markets**

JUSTINE POLLARD



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The supportive team at John Wiley & Sons who offered me the opportunity to write *Smart Trading Plans* and assisted me every step of the way.

The mentors I have met along my journey who have made me the trader that I am today.

Finally, to all my clients and readers out there, you are the reason I wrote this book. I know what it is like in those early days of your trading journey, and my goal is to assist you in taking the right steps to get started.

Foreword

I first heard about Justine through my adoptive father, who attended one of her technical analysis classes on Sydney's North Shore several years ago. I was interested in meeting Justine and wanted to find out more about her and her trading. But it was not until 2006, when I was searching for traders to interview for my first book (*Real Traders*), that I finally had an opportunity to meet Justine. I contacted her when I learnt that she had experience in trading contracts for difference (CFDs), and was delighted when she agreed to be featured in my book on the subject.

One of the things that stood out for me after my first meeting with Justine was the fact that she's so thorough and meticulous. I must admit I was not expecting her to show me all the spreadsheets, charts, indicators, templates and trading tools that she had developed herself over the years. I didn't tell her then, but of the many traders I've met and interviewed she's the only one who readily and openly shared the details of her trading methodology.

Since that first interview, Justine and I have developed a close relationship at various levels—I regularly call her to exchange trading ideas, and at times I ask her for media commentaries. Sometimes I consult her on specific trading strategies and pick her brain on various trading situations. In a way, we share a virtual mentoring/sharing arrangement, which I believe is vital in every trader's journey in dealing with the markets.

Over the years Justine has mentored hundreds, maybe even thousands, of traders and would-be traders. I believe those traders have benefited greatly from Justine's

Smart Trading Plans

experience, generosity and willingness to help others become successful in the markets.

Just like in her mentoring and coaching programs, Justine tells it how it is in *Smart Trading Plans*. You really have to appreciate the fact that everything she's written is drawn from her years of experience in dealing with the markets. She doesn't try to make trading look easy—instead, she openly and honestly admits that trading is tough. It takes courage and discipline, especially during the hard times, to ensure that you stick to your trading plan. To receive this advice from someone with years of experience who is actively and profitably trading the markets is very valuable.

Justine says that she can give you all the necessary tools and information about the market and trading strategies, but in the end whether you become a successful trader or not will depend on you alone. You will need discipline and determination to succeed, and this book on getting your smart trading plan together will set you on the right path.

This book is not just about making money—it is a blueprint for ongoing wealth creation and a guide to help you focus on your goals and overall lifestyle plans.

Don't let the title of this book deceive you—it is about more than coming up with a smart trading plan. Justine shares many of her personal trading tools, trading routines, techniques, market evaluation processes and analysis methodologies. Again, what makes this stand out from other books is that you can be sure that Justine is sharing everything based on her trading experience. She's not afraid to admit that not all her trades are winners. She openly shares her performance results over the years, and most recently from a CFD trading competition where she managed to generate a return of 82.5 per cent over an eight-week period.

One of the outstanding quotes I remember Justine giving me in an interview was about stop losses. She said, 'Stop losses are my lifeline in the market'. This demonstrates how important risk management is for Justine, and it is no wonder that she dedicates three chapters in this book to emphasising the importance of risk management in your trading.

This must be one of the most inspiring and challenging books on trading and understanding the markets. As Justine said, trading is psychological, and I'm sure you will also come to a better understanding and appreciation of yourself once you've read this book.

Foreword

For those who want to get started in trading but are not quite certain where and how to begin, this book will give you all the basic and important guidelines you will need to make the best possible start. For those of you who have been trading the market for a while but are still trying to figure it out, this book can help you unlearn some of the bad habits you've picked up along the way. It will also come in handy in reviewing and re-evaluating your trading plan and strategy. And to those who have been in the market for so long that they think there's nothing else to learn, you may be surprised at the wealth of wisdom and knowledge you will find in this book.

Wherever you are in your trading journey, this book will definitely give you a smart push to bring your trading to a higher level.

Eva Diaz

Author,

Real Traders, Real Lives, Real Money

Introduction

A trading plan is your road map in the market—without it you will get lost

When I first began trading the markets for a living, it was nothing like I'd anticipated. I remember dollar signs flashing in front of my eyes—I expected to make large profits and thought it would be easy. I was attracted to short-term trading, thinking the faster and more regularly I traded, the more money I would make. Boy, was I wrong. The reality was very different. It was the most challenging career decision I have ever made and one that was full of self-discovery, discipline, confrontation and going beyond what felt right. In the end, it was also one of my best career choices once I discovered the secrets to trading success—which is all about having a sound trading plan and adhering to strict money management rules.

When publishers from John Wiley & Sons approached me to write this book, I was very excited. As a true believer in the importance of a trading plan, I teach a course called *Smart Trading Plan & System Development*, which revolves around the development of your own personal trading plan. I knew that writing this book felt right, and through it I would be able to get my message about the importance of a trading plan out to more people. Most importantly, this book will teach readers what I believe should go into a trading plan. It's one thing to realise that you need to have a trading plan, but another to know where to start and what to put into it.

I have a background in business and marketing and have been involved in the development of business plans. This knowledge and experience assisted me in developing my own personal trading plan. I styled it on a business plan and adapted it to suit the business of trading.

I then converted my trading plan into a template that I have provided to my clients for many years to assist them in completing and developing their own personal plans. As a special bonus for purchasing this book, I am making this *Smart Trading Plan Template* available to you to download for free. The template is a Microsoft Word document, ready for you to download and work through as you read this book.

To download the template, please visit <www.smarttrading.com.au> and click on 'free book bonuses'. There is also a free *Position Sizing Calculator* available for download, discussed further in chapter 14.

Who am I?

You may already be familiar with me from my interview in the book *Real Traders, Real Lives, Real Money*. Eva Diaz interviewed me for this extraordinary book, based on the lives and experiences of some of Australia's most successful and profitable CFD and FX traders.

I'm a private Australian stock market trader, trading mentor and author of a range of training courses and programs. I not only trade the markets, but enjoy educating budding traders in getting started and improving their skills and knowledge of the markets. You can find out more information about me by visiting my website <www.smarttrading.com.au>.

I was introduced to the stock market by my grandfather after I left high school in the early 1990s. It was not until the end of 2000 that I made the decision to leave my full-time job and trade the stock market for a living. I can't say that my first year of full-time trading was very successful. I traded a lot of different instruments, tried a lot of different styles and experienced the crash in the markets after the events of 11 September 2001. So I know that learning to master trading can be very challenging. It's a topic that is full of overwhelming information and it is always hard to know where to start.

I use technical analysis to make all my trading decisions and I cover this topic in chapter 3. I taught myself how to trade over many, many years and have spent vast amounts of money on my trading education (some of it well spent and some not). It took some time before I finally found the mentors whose styles appealed to me. I then went about developing a style that suited me and continually refined it until it was both simple and mechanical.

I like the mechanical approach to trading and use two systems—a medium-term daily system and a long-term weekly system. My approach is very simple and is all based around trading trends and using strict money management rules to follow the golden rule of trading, which is to let your profits run and cut your losses short. I provide more information on my trading systems in chapter 24 and describe some of my trades from the CMC Markets trading competition in which I achieved an 82.5 per cent return in eight weeks.

I use a charting program called MetaStock and make use of a mechanical filter to scan for entries and a trailing stop-loss indicator for exits. I also incorporate a range of money management techniques to size my trades, manage my maximum open-market risk and boost my winning positions through pyramiding. Charting software, risk management and trading instruments are covered later in this book.

I mostly trade the Australian market through shares and contracts for difference (CFDs) and from time to time I trade the US markets when the opportunities present themselves.

Who is this book for?

If you want to trade like a professional, your first step is to take the time to develop your own personal trading plan.

I have written this book for all traders, whether they are just starting out and looking for a place to begin, or have already been trading and want to set some clear foundations in place by developing a trading plan. Others may want to refine their trading plans to ensure they have covered everything. No matter where you are with your trading, you need to have a plan. Every successful trader has a trading plan—that is what makes them successful and distinguishes them from the amateurs in the markets. If your goal is to be a successful trader (which I know it is because you are reading this book), then you must have a trading plan.

Completing a trading plan is a big task. It's easy to put it off and say you'll do it later, but it is a lot of information to carry around in your head. By taking this information out of your head and writing it down, you are giving your trading perspective, focus and clear guidelines. Plus, you are relieving your mind of the stress of trying to retain all that information and allowing more knowledge to come in. It is well worth the effort and you will feel much more at ease as you move forward with your trading.

About this book

There may be some terms that I use throughout this book that you do not understand. I explain most of these terms as they come up, but to assist you further, I have provided a glossary at the end of the book so that you can look up any terms I mention that you are unfamiliar with.

This book provides you with all the foundations required to complete your own personal trading plan. I can't stress enough the importance of taking the time to do this and that is why I am offering you my *Smart Trading Plan Template* as a special bonus to assist you in doing so.

In order to get the most out of this book, I suggest that you work on a section of this template as you complete each chapter of the book. It will make it a lot easier to complete and it won't feel like such a big task later. You may decide to read the entire book first and then go back and focus on completing your trading plan by re-reading one chapter at a time. Be aware that (at first) your trading plan will be a work in progress and you will continue to refine it as your knowledge grows.

This book covers all the sections that you need to include in your trading plan. From part II onwards, each chapter is dedicated to a specific section. The sections that need to be covered in your plan are:

- goals and objectives
- trading structure
- trading tools
- trading style
- trading indicators
- risk and money management
- market exposure guidelines
- trading systems (including your set-up and trigger criteria for each system and exits)
- trading routine
- trading performance and analysis

Introduction

- contingency plan for all worst-case scenarios
- personal trading rules.

Within these sections there are a range of subheadings that you will need to cover. For example, the first section of your plan will look something like this:

Goals and objectives

Why am I trading?

Goals

Trading edge

Trading returns and objectives

I discuss each of these subheadings and assist you in completing them. Throughout the book I put forward a series of questions for you to think about that will help you to complete that subsection. I also provide information to guide you in making important decisions, such as selecting your trading style.

As I discuss certain elements, I provide examples of what a long-term trader may put into each subsection of the trading plan. These examples are a guide only and are collated in appendix A at the end of the book to show you how a sample trading plan may look on completion.

Each chapter ends with a 'smart action step' that will guide you in what you need to do to complete that section of your trading plan.

I am looking forward to assisting you in becoming a SMARTER trader and guiding you in completing your own personal trading plan.



Justine Pollard

Private trader and mentor

<www.smarttrading.com.au>

Part I Your business of trading



Trading is a business

The oft-quoted statistic is that 80 per cent of traders fail to make money in the markets. One of the reasons such a high percentage fail is because many traders do not have a plan—they trade the markets blindly with no focus and no clear guidelines. Trading is a business and in order for a business to survive, it must have a plan.

When you trade the markets, you are putting money at risk with the goal of achieving a profit, just like any small business. So you need to treat it like a business and have a plan that sets out how you are going to manage it. In essence, this is what this book is all about. It's about teaching you to be a sound businessperson and the steps you need to take to develop your own personal trading plan.

A trading plan is very personal and individual. We are all different and what may suit one trader will not necessarily suit another. As a trader, you are totally responsible for your own decisions and actions in the market, so your plan needs to be unique. It needs to reflect your personal motivations for trading and be based on a method that suits your personality and lifestyle. This will be influenced by how much time you have to devote to trading and the amount of available capital you have to trade.

Develop a SMART trading plan

The only way you can be successful in the markets is to develop a trading plan that suits your personality. It is up to you to lay the foundations yourself and develop your plan to blend with your lifestyle and personality.

My goal is to guide you in developing your own personal SMART trading plan. When I say SMART, I mean that your plan must reflect the following key criteria. I will be covering these in more detail throughout the book.

Simple. Keep your plan simple—it is easy to get bogged down with too much information in trading and overcomplicate it with too many rules. I like the KISS method—‘Keep It Simple Stupid’. For a technical trader, it should simply be about trading in the direction of the trend and exiting when the trend changes. But that is always easier said than done, because emotions often come into play and affect your trading decisions.

Mindset. You are the most important part of your trading. It is what goes on inside your head that will make or break you as a trader. You need to develop self-awareness and understand your motives for trading. Trading is not just about making money—money will flow from good trading.

Approach that suits your personality. Trading is about developing an approach that you are comfortable with that suits your personality and lifestyle. Your own personality influences the way you trade. Each person has a different psychological makeup and different reasons for wanting to trade the markets. If your approach does not reflect these things, it is unlikely that you will follow it.

Risk and money management. Managing your risk and money will be one of the keys to your success in the markets. You need to include information in your plan on how you will determine your position size, your capital allocation and stop-loss methods.

Trading system. This is the method you are going to use to trade. Your system will include the signals you will use to enter a trade, such as the set-up and trigger criteria and, most importantly, your exits.

How much capital do you need to get started?

I am often asked, ‘What is the minimum equity you need to trade?’ Obviously, the more money you have available, the better. But at the same time, you have to start somewhere and learn, even if it is a small amount. It’s best to start small first and see if you like trading before committing more money to it. A good starting point would be \$10 000 to \$20 000. With \$10 000, you could take on four trades at \$2500 each. Any amount lower than this would make the positions smaller and the brokerage

Trading is a business

costs proportionally larger. If you have a \$20 000 account, you could take four trades at \$5000 each, or five trades at \$4000 each.

You need enough money to allow you to diversify in the market with at least four to five trades and ensure that brokerage costs don't weigh on your account. Because trading is not a zero-sum game, the brokerage costs really add up on small accounts. The cheapest brokerage for share trading is a fixed cost of approximately \$19.95 per trade for trades under \$10 000. So to buy and sell, you are looking at a total of about \$40 per trade. At \$40 a trade, this would equate to 1.6 per cent of a \$2500 trade. So you would require a share to rise by 1.6 per cent just to pay off the brokerage costs of the trade. The smaller the amount invested, the larger the rise you would require to pay for brokerage. This makes it harder to make a profit.

The next question I am often asked is, 'Can I replace my income by trading?' Once again, this depends on your capital base. You have to think of trading in percentage returns. If you are confident that you can make a 20 per cent return on your capital, then you need to consider how much capital you would need to replace your income. For example, 20 per cent return on a \$100 000 account would provide an income of \$20 000—would this be enough to replace your income? Probably not. But it gives you something to think about—you must be realistic about the return you can expect. I will be talking more about trading returns and objectives in chapter 4.

✓ **Smart action step**

Be a sound businessperson. Make it your goal today to develop your own personal SMART trading plan. To get started, visit <www.smarttrading.com.au> to download your free *Smart Trading Plan Template* and focus on completing it as you read through this book.

Trading psychology

All of the top traders I have met and read about say that psychology is the key to successful trading. I did not understand this until I started trading the markets full-time and had to come to terms with the emotional swings and internal dialogue you experience while in a trade. It took me some time to realise how important your mindset is in becoming a successful trader—in the end, this is what makes or breaks you in the markets.

I have learned more about myself since trading the markets full-time than in any other career I have undertaken. I can say now that it has been a wonderful journey of self-discovery and inner growth, but during the first year it definitely did not feel that way. I would like to share with you the psychological journey that I went through in my first year of full-time trading and the steps that I undertook in the following year to improve myself.

My trading journey

Before I started trading the markets full-time, I sat down and studied my motivations, set goals and determined what I thought to be my edge in the market. I knew that I was a highly organised, determined, motivated and goal-oriented person, so I felt that these characteristics would give me an edge in the market. However, I lacked patience and had a tendency to beat myself up after exiting a losing trade.