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Developing A Trading Plan

Presented by:

John Carter

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Live Presentation Starts at 3:30 PM Chicago Time

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Spotlight On: Metals

Gold heats up as the CBOT takes the lead. Here's how to take advantage >>

Trading Strategies

[Trading the TUT Spread: Capitalizing on changes in the yield curve 1](#) - 12.05.03
On Sunday evening, November 23, 2003 (trade date, the CBOT will begin trading.

Day-Trading the mini-sized Dow -

07.13.04
Gaps and Pivot Plays for day-trading mini-sized Dow Futures.

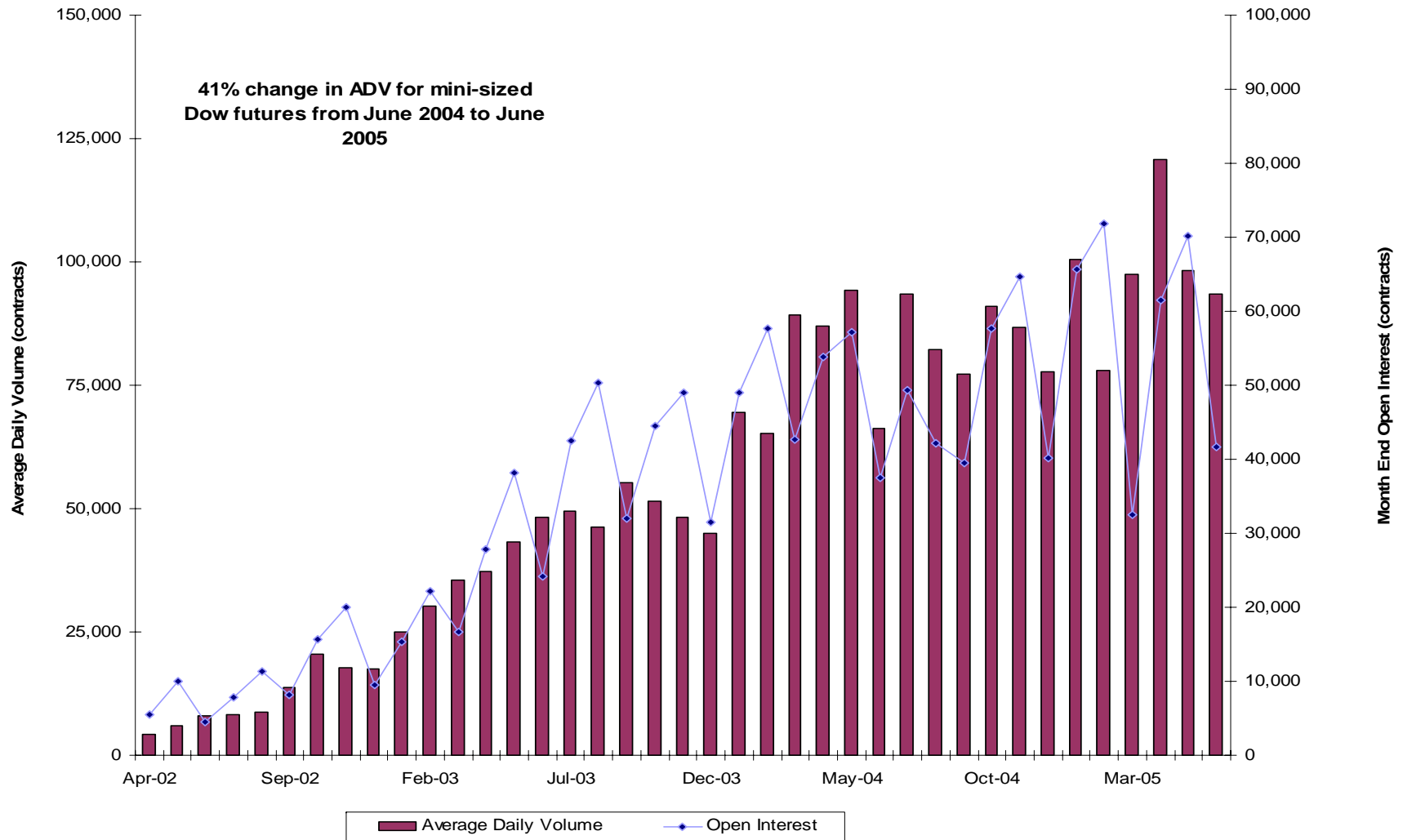
Circuit Breakers

A full explanation of how NYSE and CBOT trading halts work in times of extreme market volatility.

Today's Events

FR - [API/EIA Energy Stks](#)
FR - [Greenspan speaks](#)

CBOT mini-sized Dow Futures Contract Average Daily Volume and Open Interest



www.cbot.com/dow

BUY ORDERS		SELL ORDERS	
QTY	PRICE	QTY	PRICE
12	10573	22	10574
16	10572	19	10575
64	10571	56	10576
67	10570	145	10577
83	10569	139	10578
43	10568	21	10579
42	10567	35	10580
55	10566	16	10581
35	10565	35	10582
28	10564	28	10583

Aug 18, 2005 12:12:11 PM

- Full order book with depth-of-market
- 100 % Electronic
- Transparency
- Anonymity

Developing a Trading Plan

John Carter

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- Short selling is an advanced trading strategy involving significant risks, and must be done in a margin account. Margin trading increases your level of market risk. For more information please refer to your account agreement and the Margin Risk Disclosure Statement.
- Commissions, taxes, and margin interest are not considered in the examples given in this presentation.

Trader Psychology & Trading Business Plan

- Part I: Trader Psychology

Psychology: Rewire Your Brain

- Emotion is the enemy of successful trading. The markets are set up to naturally take advantage of and prey on human nature.
- The tactics you use to achieve your goals in everyday life do not work in trading, and in fact are one of the main reasons for failure.
- Traders who “play the markets” with a mental framework oriented towards how external society rewards and punishes “good” and “bad” behavior are set up to lose.
- “Making money good, losing money bad.”

- This “society focus” on money instills the very habits that cause traders to lose money.
- For example, “Cutting losses short” is difficult when there is the possibility of the market coming back to the breakeven point.
- At breakeven, you are not a “loser.” **HOWEVER**, removing a stop in the hopes of getting out at breakeven is a **LOSING HABIT** in trading.
- The rest of the world views losing as a bad thing. This is true in many parts of your life. If you bring this same mindset to trading, you will never win. In trading, small losses are awesome!

- After losing consistently in the beginning, traders start making trades based on a fear of losing money, fear of being wrong, or fear of missing an opportunity. This “start of phase II” also does not work.
- By focusing on not losing, you will naturally take small profits, and let losers run in the hopes that they come back to breakeven.
- At this point traders realize trading isn’t easy. They then go on the search for “The Holy Grail.” That is the “fail safe indicator” that never generates a losing trade.

- After “Fear of Losing” both Greed and Euphoria are a trader’s worst enemies. Fear of missing a move also causes mistakes. (Jumping in too late).
- \$500 a day is very reasonable. But, when you then go for \$750 or \$1000, greed takes over and mistakes kick in: overtrading, not sticking to parameters, rampant emotions, yelling at screen.
- “Home Run” mentality is the downfall of all losing traders. This is where you refuse to take a \$500 profit because you “want a bigger trade.” This is how winning trades turn into losing trades.
- Market is an all you can eat buffet: no reason to overload your plate on 1 trip; you can keep going back

- Euphoria is worse than Greed.
- You had a great day yesterday, so today you are over confident and you throw out your trading rules.
- Things are going great – so double up! Triple up! Keep adding to your position!
- This is like betting it all on each roll of the roulette wheel. You can win 10 times in a row, but it only takes one loss to devastate your account.
- This will only end in one way:
- Badly: Develop a business plan and stick to it!

- Set up your parameters before placing the trade
- Before the trade you are at your most objective
- After the trade is in place, you can talk yourself into anything
- Successful traders have a habit of ringing the register. Get in and start scaling out.
- Overly bullish or bearish a bad idea: Do not try to impose your will on the market.
- Discipline before Vision: know your exits

- Professional traders focus on limiting risk and protecting capital. Amateur traders focus on how much money they can make on each trade. Professionals always take money away from amateurs.
- Amateur traders turn into professional traders once they stop looking for the “next great technical indicator” and start controlling their risk on each trade.

- Embracing your opinion leads to losses.
- When a trader rationalizes a decline by saying things like, “They are just shaking out weak hands here,” or “I’m staying in because it’s just the market makers fishing for stops,” then trader is embracing his own opinion instead of listening to the market.
- This is also called “being an amateur” and leads to a one-way revolving door called financial ruin.

- Professional traders actively take small losses, and they do so because they know their most important job is protecting their capital.
- Amateurs resort to hope to save their trades.
- In life, hope is a powerful and positive thing.
- In trading, hanging onto a trade based on hope is very similar to staying inside a burning car in the “hope” that the fire will go out. The end result won’t be pretty.

- In reality, traders are not trading stocks, futures or options.
- They are trading other traders.
- Be aware of the psychology and emotions behind the person who is taking the opposite side of your trade.

- The most important lesson of becoming a successful trader is learning how to accept a loss without any frustration, anger or shame.
- The key is to have two specific sets of rules: Trading Methodology Rules and Money Management Rules.
- By following the rules, you learn to trust yourself. Once you trust yourself, you can then focus on the market's opportunities (instead of focusing on trying to not lose money).

- Focus on developing your skills instead of focusing on the money.
- The markets move endlessly, with zero regard to you. They are not “after you.”
- Traders become consistently profitable once they learn self-discipline, emotional control, and the ability to submit their will to that of the market.
- The less you care about being right or wrong, the easier it will be to enter and exit positions, to take losses, and be ready for the next opportunity.

Trader Psychology & Trading Business Plan

- **Part II: Daily Pre-Market Checklist**

My 2005 Business Plan

1. Why am I trading again in 2005?

- Potential Financial Rewards
- Freedom to work from anywhere
- Freedom to choose who I want to work with
- Freedom to dictate my own schedule
- Continuing mental growth and new challenges
- Would miss it if I stopped

2005 Business Plan

2. Markets to Trade

- Mini-Sized Dow
- Emini S&P
- Emini Nasdaq
- Emini Russell 2000

Why These Markets?

- Mini-Sized Dow (YM): First choice for intraday trading. Setups to use are Pivots, Gaps, and Squeezes. This contract offers a better spread than the other mini contracts, and it is very easy to get a handle on the Dow by watching the 30 stocks on an auto sorting list.

Why These Markets?

- Emini S&Ps (ES): Intraday plays use Tick Fade and Moving Average Crossovers. Also use for swing plays.
- Emini Nasdaq (NQ): When this index is the strongest or weakest on the day, use pivot setups.
- Emini Russell 2000 (ER): When this index is the strongest or weakest on the day, use pivot setups. Also use for swing plays.

Notes on Markets to Trade

- Parameters are never to be changed once a trade is entered. An intraday trade does not turn into a swing play. Parameters are determined before a trade is entered.
- For intraday trading, do not use all 4 stock indexes at once. If the Nasdaq is the strongest market of the day, focus longs in that market. If the S&P is the weakest, focus shorts in that market.

3. Account Size: Based on multiples of \$100,000

- Withdrawal 50% of profits at the end of each quarter.
- Why? This is the best way to protect profits.
- This is also a reminder that the numbers on the screen are real and represent real cash.
- Never add money to your account or meet margin calls. “Feeding the Beast.”
- Ok to add money to a positive % account.

4. Number of Contracts to Trade (per \$100,000)

- Mini-Sized Dow: 6
- Emini S&P: 6
- Emini Nasdaq: 6
- Emini Russell 2000: 3

*Recommendations may not be appropriate for all individuals.

- Allocations for \$15,000 account would be 1, for a \$1,000,000 account would be 60, etc.
- Contracts specified are full positions
- Maximum total contracts for indexes: Intraday: 12 Overnight: 6

*Recommendations may not be appropriate for all individuals.

5. Execution Methods

- Gap Plays, in all at once, and exit all at once at the gap, unless it also includes a 50% retrace
- Pivot Plays, in all at once, scale out half, half on range day greater than 100 YM points, 3, 3 on range day between 50 to 100 points and 6 (all out) on range days below 50 points.
- Squeeze, all in, all out on signals
- Tick Fade, all in, all out.

6. Drawdowns: Rules & Regulations

- If you are down 12% for the month, cut position size in half for the rest of the month.
- If you are down 16% for the month, stop trading for the rest of the month.
- If you hit a 30% total drawdown, it is time to take a 4 week break from trading.
- Maximum overnight exposure is 1/3 lot size.

- For overnights and swing trades, hard stop is to 2% loss of equity.
- Daily drawdown max is 2% or \$2,000 per \$100,000. If at the end of the day you exceed this level beyond slippage (down \$2100, then you take another trade and lose), you don't trade the next day. If you exceed this level again that week, you are done trading the rest of the week. This is punishment for not following your trading rules.

7. Profits: Rules & Regulations (per 100K)

- After winning days and losing days, focus on making an average of \$500 per day. \$500 per day = \$120,000 per year, or +120%. Slow and steady wins the race.
- T, W, TH are your best trading days, focus on making \$1,000 on these days.
- If you are up over \$2500 before 12 noon, stop trading for the day.
- If you made over 10% for the week, take Monday off.
- If you are up 20% for the month, take the rest of the month off.
- Track daily profit & loss on a spreadsheet

8. Rating Your Performance

- Write down the trades in a journal as you take them. Track results of each trade.
- Note if you followed the parameters or changed them while you were in the play. If so, why?
- The results of each trade will add up to the total P&L for the day.
- Any trade you take that is not listed label as an “impulse play” which is your weakness. Track its performance.

9. Tracking Your Daily Ups & Downs

- Goal is consistent profits and smaller drawdowns.
- How many days did you start off losing and end up in the plus side?
- How many days did you start off strong only to give it all back?
- What was going on today in terms of interruptions, phone calls, family stuff?

9. Tracking Your Daily Ups & Downs

- You get in trouble when you are doing well, then you go for that “bigger plate at the buffet.”
- Keep track of the days where you let greed get the best of you, then work on reducing the number of those days.

10. Office Setup

- 1 Computer & monitors for day trading
- 1 Computer & monitors for swing trading
- 1 Computer for Email, Internet, Instant Messaging
- Broadband access with phone line backup
- Land Lines and Cell for telephone

10. Office Setup

- Battery Backup
- Comfortable Chair
- Virus protection software
- Spyware protection software
- Commercial Free music
- No phone calls till after 11:00 AM est Eastern.

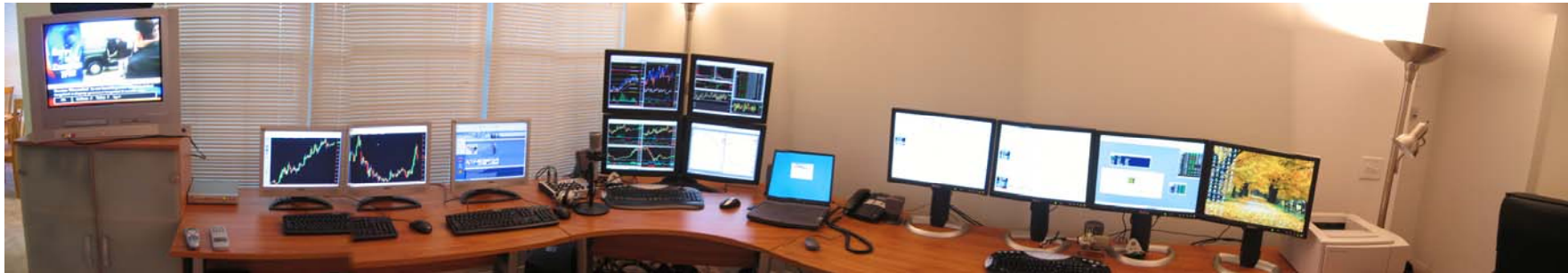
Hourly & Daily
Charts of the
Stock Indexes

Email,
Internet

Intraday Tick
Charts and Market
Internals

Backup
Laptop

Quad Monitor
For Stocks and
Execution



← Feed Large Predator
Fish, Martha, Each
Morning To Get in
the Right Frame of
Mind For Trading

11. Rewards for Performance

- When you hit 60% for the year, take the next 4 weeks off.
- Take 2 weeks in Europe, 1 week in Bahamas
- Upgrade home theatre system
- New Rolex
- Buy more land

12. Peak Performance

- When you have a 10% week, go do something to tame your Euphoria by taking Monday off and doing something that humbles you such as golf, flying a plane, workout with black belts in Tai Kwon Do, etc.
- Leave the markets between 12 PM and 2 PM Eastern and take a mental break.

12. Peak Performance

- Quit trading after 12 Noon on Fridays.
- Trade lighter during the last 3 days of options expiration. Consider not trading at all during this time.
- Focus heavily on the first two trading weeks of the month. Then take a 3 day weekend to get away and recharge.
- If you reach \$2500 per 100K by 12 Noon, continue to trade until you have a losing trade.

12. Peak Performance

- Don't answer the phone, Instant Messages, Emails, etc., between 9:00 AM and 11:00 AM. Stay focused on the markets.
- Do not initiate trades during the overnight sessions. Better yet, don't watch the action either.
- If you are taking a day off as a reward day, physically get away so you can't trade or watch the markets.

12. Peak Performance

- Take off the entire week of Thanksgiving.
- Take off the last two weeks of the year.
- Do something physical at least 4 times a week and 6 is better. Tai-Kwon Do, Cardio, Weights, Core Strength Training, Waterskiing, Jogging, etc. The more the better.
- Traders and Vices don't do well together: Watch intakes of caffeine, alcohol, etc.
- Stay healthy with good eating habits and vitamins

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NYSE High...

NASDAQ	NYSE
TLB	26.12 15
LUK	42.09 19
TPP	40.87 17
RMK	25.98 12
TLI	14.14 7
PLB	20.81 18
RGM	23.60 12
CAE	36.69 24
KRK	26.39 4
LBY	22.65 4
SLF	32.32 23
OHB	18.71 3
PLD	40.59 44
PSApS	26.40 3
BNN	34.00 12
NEH	10.26 3
FST	32.81 75
PBI	44.97 49
LVS	42.71 23
CRL	44.79 40
COO	75.01 28
BNS	32.72 7

Dynamic Ticker #1: S...

AMAT	:41%
AMGN	:3%
AMZN	:53%
BAC	S: 0%
BMY	S: 5%
C	S: 9%
COST	:15%
DELL	:3%
DIA	S:81%
DISH	:40%
EBAY	:100%
FITB	S: 3%
FNM	S:32%
FRE	S:50%
GE	S:27%
GM	S: 0%
HD	S: 7%
IBM	S:10%
JNJ	S: 0%
LOWS	:0%
MSFT	:64%
NOK	S: -5%
NXTLS	:11%
PFE	S:18%

CyberChart #1 - mini-sized Dow Jones Indus

MACDh

%Ds %K

CyberChart #2

Executed ...

EGHT	100	2.90
EGHT	100	2.90
SMTL	200	9.59
MAPS	100	12.56
IACI	400	23.64
ESRX	300	74.41

Dynamic Ticker #2: E...

BBH	S: 6%
BTK	
DIA	S: 34%
QQQ	
SMH	S: -6%
SPY	S: -8%

#1 - AYRE - mini-sized Dow Jones Indus - CBOT

Futures Options L2 Opt Adv. Opt

/YMHS Change -5.00 -0.05% Volume 44,116

Last 10468.00 Open 10493.00 Hi 10512.00 Ratio 1 x 1

1000 \$ Close 10473.00 Lo 10462.00 Spread -1.00

L 10467.0 CyberXchange Spec. Cond Sell Buy

Limit DAY Reverse Cancel

10467.00	1	10468.00	20	10466.00	1
10466.00	42	10469.00	62	10467.00	1
10465.00	23	10470.00	27	10467.00	4
10464.00	12	10471.00	25	10466.00	1
10463.00	88	10472.00	83	10467.00	1

CyberChart #3 - CBOE NASDAQ 100 OPTION NE

Top Ten ...

NASDAQ	NYSE
LU	+0.08
SPY	+0.08
PFE	-0.36
SMH	-0.09
GE	+0.34
CVC	+3.10
NT	+0.04
SFP	+0.70
ACR	+1.69
CVC	+3.10
ELK	+3.60
LAB	+0.76
RIO	+2.01
MTL	+1.53
PTN	-0.16
DAL	-0.35
DMF	-0.65
DNT	-0.62
HRT	-1.04
ACS	-3.22
SFA	-1.60

Market View: webin...

File Settings Tabs

Futures Indices Stocks

Symbol	Last	Open...
\$BKX	100.57	+0.01
\$BMX	112.43	-0.56
\$BTK	525.37	-0.22
\$CMR	583.02	-0.45
\$DFX	246.21	+0.23
\$DRG	303.33	-0.31
\$GHA	300.49	+0.19
\$GIN	165.14	+1.01
\$GSM	196.60	-0.06
\$GSO	161.22	-0.42
\$GSV	132.00	-0.71
\$HGX	462.74	-0.33
\$HMO	1288.45	+1.11
\$IIX	156.85	+0.30
\$INX	195.36	+0.59
\$MSH	468.67	-0.23
\$NWX	224.64	+0.71
\$OSX	128.20	+0.85
\$RLX	434.13	+0.05
\$SOX	393.39	-0.42
\$UTY	370.33	-0.14

Messages

13:05:2 AYRE: Open Short: COST 1,000 at 47.03

13:05:2 AYRE: Order 11 Filled.

13:05:2 AYRE: Smart Order 10 Filled.

Account Manager - AYRE

N.	Time	Symbol	Order	Qu...	Price	Venue	Status
7	13:05:09	BAC	Short	1,000	45.28	NYSE	!
4	13:05:03	AMGN	Buy	400	63.27	INET	!
3	13:05:03	AMGN	Buy	400	63.27	Smart	!
10	13:05:24	COST	Short	1,000	47.03	Smart	!
11	13:05:24	COST	Short	1,000	47.03	INET	!

News #1 - Hot Stories

Hot Stories Query Results News Watch

13:06 DJ Nasdaq Net Change Percentage Gainers & Losers

13:06 DJ CBOE Most Active Call, Put Option Series

13:06 DJ NYSE Regular And Sessions Vols., Market Value for Jan. 2

13:05 DJ Money Flow Table For Major U.S. Indexes And Stocks

13:05 FNB Bancorp Declares 0.15 Dividend, Record Date 1/31/05

13:04 DJ S&P Rates Children's Hlthcare Of Atlanta Bonds 'AA'



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