

Forex Cadet Flight Plan

Imagine this ...

You are departing by plane to your favourite holiday destination, waiting for your flight to be called. No sooner when you hear the number over the loud speaker are you heading down the gangway, bustling with the other passengers to get on board. Finally, you ease back into your seat ready to relax and enjoy the flight.

Suddenly you start to notice some very strange things around you – first the airhostesses seem to be almost falling asleep, with no enthusiasm for their jobs; then the pilot finally arrives late and you hear him whispering to the hostess checking the destination of the flight – none of them seem to know what is going on or even seem to care.

This was unlike any airline you have ever been on - the equipment looks very ragged and unmaintained, even tiling was missing off the walls and ceiling, with electrical cables falling through. Plus a few seats were gone. And there is a strange odour in the air.

You are getting really worried now. The engines roar and the plane jolts forward, then backwards – “does this guy know where he is going, or even how to fly?”, you nervously think to yourself!

Looking at this situation ... hopefully by now most people would be running a mile.

The reasons are obvious; not only do the people, who are meant to “be in control and know what they are doing”, seem to have no idea; the plane is also definitely not adhering to any safety regulations and has certainly not been upgraded and maintained for some time; the pilot didn't even seem to be prepared for the actual destination. This plane flight had no plan, failing systems and no safety measures.

I want you now to compare this to trading the financial markets.

There are billions of traders out there who come to the financial markets in this very same manner and expect to profit – that is absolutely absurd!

First of all they have no or limited knowledge or understanding; they have no plan of attack or understanding of what they are trying to achieve (personal & financial goals); and they certainly have no Trading Plan.

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So what is a Trading Plan?

Well, it is the compilation of faculties, systems, tools, rules, emotional control and discipline all thrown into the one bag. A high quality airline envelops all these into the one aircraft.

The plane is the outline or the shell of an amazing plan with thousands of intricacies, it contains;

- all the controls and equipment that enable such an enormous weight to seemingly effortlessly glide through the air against gravity and the will of nature;
- all safety aspects have been identified and carefully premeditated with the necessary resources onboard;
- systems and procedures are carried out quickly and methodically by the crew;
- and most importantly the skilful pilots guide the amazing piece of machinery on a flight path through many varying weather conditions, all of which they are highly trained and prepared for whatever they may be faced with.

You wouldn't stay on a plane that didn't obviously have all these important facets in place, so why wouldn't you trade the markets the same way.

A trading plan identifies all potential situations that may arise, and gives you the answers to what your actions need to be. Coming from this vantage enables you to work from a proactive, rather than reactive state.

If you are reactive to your environment, then you are trading from highly emotional position – and this is definitely WRONG. This is something I will go into detail within the Trading Psychology course.

At a minimum your Trading Plan needs to include rules and strategies of the following:

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<p>Account Risk Rules:</p>	<p>These rules and strategies need to identify the maximum amount you would risk on each trade.</p> <p>For example;</p> <ul style="list-style-type: none">• You may decide that you do not want to risk any more than 2% maximum of your account on each trade. So if you had a \$50,000 trading account then 2% is \$1,000. It is from this figure that you work out the number of lots you can buy. Let's assume that your Stop Loss is set 50 pips away from your entry price, and the profit is \$10 per pip – this means your maximum risk is \$500 per lot. Therefore, you could purchase 2 lots.• Or it may be a fixed dollar amount. You may decide that the maximum loss you are prepared to lose would be a fixed \$1,500 of your \$50,000 account, or wherever your risk tolerance level lies.
<p>Entry Rules:</p>	<p>This is a steadfast list of criteria that must apply before you would even considering entering the market. Never over complicate your rules with too many tools and indicators – it will only overwhelm you and open the door to human error. Most importantly, be clear on exactly what your indicators mean, they need to be exact and well defined – not wishy washy and easily influenced by subjectivity. A trading plan needs to be written so precise and clear that if you gave it to 10 different people you would get the exact same results.</p>
<p>Stop Loss Rules:</p>	<p>Your Stop Loss is your predetermined, worst case scenario, exit price – Never Trade Without One! Again, this level differs depending on the trader and their preferred style of trading. The trader may set the stop loss price a set percentage away from their entry price; or a certain number of pips away from their entry price; or under/above previous support or resistance levels. (This normally needs to be married up with your initial Account Risk Rule).</p>

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Add Rules:	Add Rules are not critical – you may decide not to ever add to an open position, and this then of course would be your rule. It is important to identify all potential scenarios and decide whether you would act upon that type of situation should it arise <u>before getting into the market</u> .
Take Profit Rules:	You will need to decide if you will take some profits along the way, and if so how much? A fixed dollar amount; a percentage; or enough to cover the potential risk of the trade, etc? When a position gets into profit it can be tempting to close the whole position out, however in doing so you have just removed yourself from the game – I have seen many traders get nervy and close out a position only to watch the position continue on and they miss out on some massive profits. Taking some profit helps with the psychology (fear of losing money made), especially if you can cover the potential risk of the trade (difference between entry and exit price, multiplied by the number of lots) this way you are bringing the trade to a 'break even' status. And if the market suddenly turns around, going from profitable to losing, and hits your stop loss then you do not lose any money.
Trailing Stop Loss Rules:	Will you have a stop loss trailing your profits? If so, how will you set this? Will it follow the markets highest price (long positions) or the lowest price (short positions) by a certain percentage? Or follow the market under significant resistance or support levels (troughs in an uptrend or peaks in a down trend); or you may use a moving average as a trailing stop loss where you may exit the position if the market started to trade on the other side of this line and holds this new direction. (See our Trading Tools Course).
Final Exit Rules:	Under what conditions and criteria will you finally close out your entire position? What are the precise signals that need to appear for you to unemotionally close out of your position regardless of what the external environment is persuading you to do, or your 'perception' of what the market may do otherwise?

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Reverse Rules:	What signals do you need to be able to reverse your trade and profit from the new direction? Are these rules identical to your original entry rules of the initial direction? Or is there an extra rule or indicator that needs to be applied to confirm that it is more likely that the market has now changed direction rather than just it being a fairly large pull back from the current trend?
Psychology Rules:	It is uncommon for people to think to include rules around their own psychology within their trading plan. But having rules around emotional areas are critical. Rules such as; do not trade under significant emotional stress (clarify what you would do in such a situation – Would you close out all trades? Move up all Stop Losses?). Who would be in control of taking over your trades or closing them out should something happen to you, if anyone at all? You may have a rule that states what you need to do in the event you had 'X' number of losing trades in a row, for example if you had 7 losing trades and your trading plan stated that typically for every 3 winning trades you can expect 1 losing trade – then there is something obviously wrong, either the market conditions have changed and the plan is not as effective or you may not fully understand all components to your trading plan; or you may not have the emotional control to follow your trading plan 110% of the time.

As you can see a Trading Plan is very comprehensive and not in the way that it has loads of tools and indicators – instead it covers as many scenarios that could pop up in the markets. It certainly is not limited to these points stated above, plus each point is expanded with many rules and their objectives.

It is also very important to ensure your financial goals are aligned to your personal goals, this way you will be able to find or create a trading system that suits what you want to achieve otherwise there will ultimately be underlying turbulence.

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Your rules must also be very exact and non-subjective. You never want to be questioning your rules or perceive them differently in unusual market conditions.

As previously stated, your Trading Plan identifies as many potential scenarios as possible, giving you precise actions that you need to take if and when they arise.

Follow it without fail.

Q&A – Questions

QUESTION & ANSWER SECTION

		Answers
Question 1:	Your trading plan is like your road map, guiding your decisions through various market conditions. True or False?	
Question 2:	The Account Risk rules are criteria that help you to determine the minimum amount of money you will risk on any single trade. True or False?	
Question 3:	The more entry indicators the better. True or False?	
Question 4:	A Stop Loss is the potential worst case scenario E_____ price.	
Question 5:	Are Add Rules a critical component to a Trading Plan?	
Question 6:	If a trader nervously exits their whole position too early they don't have any cards left on the table to continue to play the _____.	
Question 7:	Could a Moving Average be used as a Trailing Stop Loss?	
Question 8:	Can you disregard any of your Trading Rules if you feel that this next trade is going to be the big one?	
Question 9:	Should psychology rules be included in your Trading Plan? Yes/No	
Question 10:	It is ok if rules are subjective. True or False?	

Q&A – Answers

QUESTION & ANSWER SECTION

		Answers
Question 1:	Your trading plan is like your road map, guiding your decisions through various market conditions. True or False?	True
Question 2:	The Account risk rules are criteria that help you to determine the minimum amount of money you will risk on any single trade. True or False?	False, it is the maximum
Question 3:	The more entry indicators the better. True or False?	False
Question 4:	A Stop Loss is the potential worst case scenario E_____ price.	Exit
Question 5:	Are Add Rules a critical component to a Trading Plan?	No
Question 6:	If a trader nervously exits their whole position too early they don't have any cards left on the table to continue to play the _____.	Game
Question 7:	Could a Moving Average be used as a Trailing Stop Loss?	Yes
Question 8:	Can you disregard any of your Trading Rules if you feel that this next trade is going to be the big one?	No
Question 9:	Should psychology rules be included in your Trading Plan? Yes/No	Yes
Question 10:	It is ok if rules are subjective. True or False?	False