

Stock Trading Plan

By Mark Crisp

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1. Establish a plan and define specific risk and profit objectives before trading. Maintain the necessary discipline to follow that plan through both good and bad times. Successful traders will agree that discipline contributed more to their success than their trading philosophy itself. Remember that the key to any plan is how well it holds over time.

2. There is no "sure thing", and there is no trading system that is 100% accurate. Your goal, as a trader, is to use the tools available and try to develop an edge. Base your trades on sound fundamental and technical reasoning, rather than on hunches and long shots. If you can develop an edge, however small, over time you will be successful.

3. A trader must be able to admit they have made a mistake. Do not become emotionally or financially committed to a losing trade. Avoid the pitfall of becoming emotionally involved with any trade.

4. An investing edge is only part of the equation. A trader should diversify sufficiently so that the growth in equity can be consistent and the likelihood of a catastrophic loss can be diminished. The lower the percentage of a trader's account dedicated to any one trade the greater the chance of the trader being successful. Even if the trader has a perceived investing edge, it is unwise to run the risk of ruin, and bet it all on one trade. The goal is not only to make money, but also to be able to continue to make money consistently for an extended period of time. A trader must learn the basic concepts and the importance of money management.

5. Lack of experience in the market causes many traders to make the mistake of taking small profits and letting losses run. Fundamental trading wisdom dictates the exact opposite. When in a winning trade, be patient and fully capitalize on the success. The trading axiom is, "cut your losses short and let your profits run".

6. A trading system does not have to be difficult, time consuming, complicated and stressful in order to be profitable. In trading systems, as in many other things in life, simple can be better (www.stressfreetrading.com).

7. As a trader, be cautious, and never let greed take control of a winning position.

8. Be aware that declining volume usually indicates the market is not accepting higher or lower prices, and this could indicate a market turn.

9. Learn from your trading mistakes. Never make a trading mistake without asking yourself why.

10. Do not make trading decision based solely on margin requirements, and always trade within your capabilities. Remain true to your trading plan and follow the trading style that works best for you.

11. Do not trade markets that you don't understand. Trade with confidence and conviction. Trade only with risk capital, and be aware of the risk of losing. Divide your capital into 6 equal parts and never risk more than one-tenth of your capital on any one trade.

12. After a long period of success or a period of profitable trades, try to avoid the natural tendency toward increasing your trading activity. Conversely, use self-discipline when a trade goes against your position. Take your loss and wait for another opportunity. Never increase your trading after a loss.

13. Avoid getting into the market because you are anxious from waiting and/or out of the market because you have lost your patience. Never over trade and adhere to your risk management rules

14. Do not make a trading decision to buy just because the price of the stock is low or sell just because the price is high. Never change your position in the market without a good reason that is based on a fundamental or technical rule indicating a change in trend.

15. Trade the most active stocks and refrain from trading

the slow moving markets. Trade "at the market" whenever possible and try to avoid a fixed buying and selling price.

16. When the market is moving with your position and you are using a stop loss order, then raise your stop loss so as to lock in your profit. Protect yourself against the possibility of turning a profit into a loss.

17. The "trend is your friend," and never buy and sell if you are insecure of the trend according to your fundamentals and technical rules. If you are in doubt, then exit the market. Only trade when you feel confident with your trading strategies.

18. Trade in five or six different stocks at a time, so as to avoid tying up all of your capital in any single stock.

19. A trader should establish a "surplus account" after a series of successful or winning trades. The goal is to retain the "surplus account" for times of emergency or panic.

20. It is difficult to try and guess where the top and bottom of the market is, instead let the market prove its top and bottom.

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