Trade Strategies and Trade Management

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A Quick Quiz: Answer this before continuing.

Do most successful traders have greater than 50% of their trades winners or less than 50% of their trades winners?

If you are relatively new to trading, you probably answered greater than 50% of the trades are winners. The purpose of trading is to make money. If you are good at the business of trading, most of your trades should be winners. Right?

If you are a successful trader or at least have a realistic knowledge of the business of trading, you know that the answer is more than 50% of the trades of most successful traders are losers. I know all of the hype we hear and read about every day by unscrupulous promoters of trading products and services want you to believe that they can teach you to have 80%-90% winning trades if you just use their products or services. To put it bluntly, this is simply a lie.

Why Capital Preservation and Loss Management Are Critical

If more than 50% of the trades of successful traders are losses, the average losing trade must be less than the average winning trade to end up with a net profit over time. If more than 50% of the trades are losers, traders are primarily in the business of losing! That is our most frequent activity! *Do you see why loss management is a critical component of the business of trading!*

The first thing you must ask yourself when you consider a trade is:
"What specific market action will indicate that I am wrong in the trade decision and how much will it cost to find out if it is a correct trade decision?"

When you consider a trade, do you first think about the potential profit or the potential loss? A professional trader always considers the potential loss first. Will the loss be acceptable within the context of my trading plan? If not, the trade must be passed-up. If you want to succeed in the business of trading, the potential loss of any one trade will be no more than 5% of your trading equity.

The potential loss is controllable. The potential profit is a “best guess”.

"Brain-Dead" Trade Entry and Initial Protective Stop-Loss

In the Dynamic Trading book and Dynamic Trader Trading Course that is included with the Dynamic Trader Software, I teach several trend-reversal and trend-continuation trading strategies.

Once a market is in a position to consider a trade, the entry trigger-price and initial protective stop-loss price is completely objective. In other words, at this point in time, you don't have to think. The market itself will either elect the conditions to enter the trade or it will not. The trade entry, whether trend-reversal or trend-continuation, will be completely objective. At exactly the time when a trader's emotions are at their peak and the chances for mistakes and costly judgements are most vulnerable, a trader should have an objective approach to take action.

Do you have a completely objective approach to trade-entry and initial protective stop-loss? If not, do what all successful traders do. Develop such an approach! If you don't know where to begin, study the Dynamic Trading book.

Manage The Trade

Have you ever been on the right side of a market move only to find that you have eventually given back most or all of the unrealized or paper profits? Have you ever had a profitable trade turn into a loss? If so, it is a clear indication that you did not have a strategy to manage the trade.

If a trade is initially successful, the professional trader will always have a specific and well defined plan to manage the trade. How, when and what market activity will be required to adjust the protective stop-loss will be planned in advance.

These Questions Must Be Asked and Answered With Each Trade

What are the market conditions that must be met to consider a trade?

What is the specific market activity that will initiate the trade and define the intial protective stop-loss?

What is the specific market activity that will trigger an adjustment to the protective stop-loss in order to ensure a profit if the market moves in the anticipated direction?

If you don't have a specific answer to each of these questions for each and every trade, you will have a difficult if not impossible challenge to be successful.

Trading Realities

This article did not provide specific trading strategies. It was meant to be much more important. It was meant to inspire you to develop your trading plan and trading strategies within the context of your own trading objectives. It is meant to give you a realistic view of trading and what you must think about and deal with to be a successful trader.

If you will deal with the reality of trading and avoid the promotional hype, you will have a much greater opportunity for success.

If you need help developing your specific trading strategies and trading plan, the Dynamic Trading book offers specific trading strategies and a trading plan that you may easily adopt or integrate into your current trading activities.