



Disciplined Trading Strategies

By Paul Lange

Introduction

For these next four mornings I am going to give you a series of exact steps that will help you tremendously if you have the technical knowledge, but cannot seem to turn the corner on making good profits. There are going to be four things that you can do that I feel will 'dramatically change your trading/investing career'. The results will be immediate, every week.

It should be stated again, that if you do not have the technical expertise, you are not at the level that these comments will help. If you don't know how to look at a chart, no amount of refining will help you.

After a long time of working with many traders, one discovers that there are certain truths that cannot be denied. There are four things that are done so consistently wrong by new, and even fairly experienced traders, that each of these mistakes results in bad trades 90% of the time for most traders. If traders would simply follow these four rules, they would eliminate most of their losing trades. The fourth rule does not really fall into this "90%" category, but is perhaps the most important.

Four Secrets to Trading/Investing – Part One

Here is the first rule, and the subject of this lesson. New traders are often so bad at managing trades, that their results would be incredibly improved by not managing at all. If you do not manage, it means you let your trade play out until it hits the target(s), or stops out. Nothing else. This is called 'all or nothing' trading. It is not *necessarily* the best way to manage, but there is a HUGE chance that it beats what you do now.

There are various ways to manage trades. Management should be a detailed part of your trading plan. Many do not even have 'management' in their plan. Many



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management systems can work beautifully. So what is the problem that makes it the case that traders are often better off doing 'nothing'? The problem is that traders do not FOLLOW their management plans. Due to the emotions of trading, traders find excuses to override them. Most new trader's goals are to lock in small profits to avoid losses at all costs, and they change their management in the middle of the trade. Do you do this? There is a 90% chance you do.

Here is how to find out. Go BACK in your records (do not do this going forward, it will not work) and take your **last** 20 trades and write down your entry, stop, target, and actual exit. Now go back to the chart, and see what would have happened if you did not manage the trade. Simply see if you hit the stop or the target first. Make a new column on your sheet and write this down. Then figure the profit for the 'new' column called 'all or nothing'. If the trade stopped, you lose your risk amount, whatever it is. If you hit a target, you may have a gain that is multiple times your loss (if you didn't have a target, figure what would have happened just holding to the end of the day, for swing trades you need to know your target). Compare which way you would have made more money, and be sitting down when you do this. Feel free to email your results to paul@disciplinedtradingstrategies.com. By the way, if you feel like you really are 'getting' the concepts of trading, and you find you have good chart reading abilities and you have more winners than losers, but your account is not growing, you are going to be in this category.

This works, because many good plays get to very nice targets. However, if the trader is not in the trade, they never make the big money. Many traders get in the habit of taking normal losses (they have learned to follow stops) but they take small gains. It is hard to make money like this.

Below is the five minute chart of PSTG, a play I did with the DTS Trading Room last week.



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PSTG – 5 Min Chart



You can look at the daily chart on your own; the strategy here is not the topic of this article. The play was entered at '1'. Based on this strategy and this setup, the second target was 'end of the day'. I have a management plan in place, but it varies with the type of play and the distance to an ultimate target. Great preference on this play was placed in hitting a nice target. Note that many traders would exit this at '2' when it broke a 5 minute pivot and the 20 ma. But, is this even the right time frame to be managing? There are times where that may be the best, but many times it is not. It depends on the play, the power of the play, your intended target, and the time you have to get to your target. To help determine this you should be tracking what you do to see what is best for the plays you take (that presupposes you take consistent predefined strategic plays). This second target was held to 'end of day' for close to max profits. What separates the pros from the novices is who really takes home serious money from this play.



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Understand, that I am NOT saying that all or nothing is the best method of managing trades, but I am saying it is better than what 90% of those reading this article do. A great management plan that beats all or nothing is the best. Also, you will NOT benefit if you are trading so bad that you stop out of all of your trades. Again, this is not a replacement for knowing technical analysis. Do NOT assume you got the point of this exercise just by reading it. Do the exercise. You will not believe your results. Email me your comments if you actually do this.

Tomorrow we will look at the second thing that will change your trading/investing career.