Beginner's Handbook Part 3-3

Yesterday I continued with part two of a three part series to help beginners, and maybe some ‘veteran’ beginners also. I looked at different time frames and the types of accounts used to encompass those time frames properly. I discussed how everyone needs to learn the language of charts one way or another because the market charges a high price to learn. Here is part three. In this issue, we are finally ready to begin trading, so let’s go over some rules to get you off on the right foot.

Part 3 of 3

Once you have made all the decisions that were discussed in the first two lessons and have done what you feel necessary to learn ‘the language of charts’ to the level you feel you need to begin trading, the decisive moment arrives. At this point, I want to make sure you have a few tools in your tool belt when you begin trading. First, there is a steep learning curve in trading. I suggest (well, insist if I can…) that you start out slowly with very minimal risk amounts. Get used to your trading software. Understand the plays. Begin to pick your favorites and really develop your trading plan. At this point your plan is likely just a 'shell'. Know how to get in and out of trades. The odds are that you will lose in the beginning. You are learning how to apply what you have been taught. You will make mistakes. The question becomes, do you want to have all this learning cost you serious money or small money? By the way, it is good to start out paper trading, but as soon as your plan develops and you know your trading software, begin trading very small risk amounts. The most important aspects of trading are not learned trading on paper.

Most of you reading this need to understand something. The vast majority of traders who come in to the market fail. Many people try to do this without any education, and those who do are the first ones to fail and usually do so in a big way. However, even with an education, it is not an easy game. There are reasons why even somewhat educated traders still fail at this. Read my website, home page, scroll down to 'Warning!'.

For most, there is a lack of discipline by individual traders regardless of whatever education level they may be at. In addition, a lack of capital that forces traders to trade with 'scared money'. It is simply a fact that most traders try to make a living from the markets with very little capital base to work with. That causes over trading and poor management decisions. If you have been trading for a while, do any of these things sound like they are powerful issues that are currently impeding your progress?

Another skill you must develop is the habit of keeping good records. Keeping records and statistical information can give you an excellent insight in your trading. There are many things that traders should track such as Sharpe ratios, batting averages, percentage gains based on any particular strategy, percentage gain based on long or short, etc. During this process you should be perfecting your trading plan. One that outlines the types of plays you will look for. It should restrict you from trading certain times and plays that you do not want to trade. It should outline money management rules for you, for handling both winning and losing days. It should set up your share size rules, and it should dictate what kind of record keeping, analysis, and continuing education you will do.

Pay attention to the analysis part and make plans to follow up on all of your trades. Most traders spend 90% of their time trading. 10% on preparation and 0% on follow up. This is a very big mistake. Traders should spend as much time following up on trades as they do trading. That does not mean that from 9:00 – 4:30 must be counted as 'trading time'.

Your plan may call for you to trade the first hour and last hour. The time in between could be used to review the morning trades and prepare for the next day, paper trade new ideas, etc. You should spend considerable time printing charts of the trades you make and evaluating them and learning from any mistakes. Good traders understand that the money lost when making a bad trade can be an 'investment' in a process that works to eliminate mistakes and improve trading.

Good traders also understand that the market is always right, and the best we can do is play the odds. Be flexible and remember that even the best trades can be stopped out.

This is the final article on "A Beginners Handbook", I hope you got 'one' tidbit, if so, it was worth the read.

-Paul