

# The Ultimate Trading Systems

*Your Step-By-Step  
Roadmap To  
Trading Success*



David Jenyns'  
**Ultimate Trading Systems**  
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## About the Author

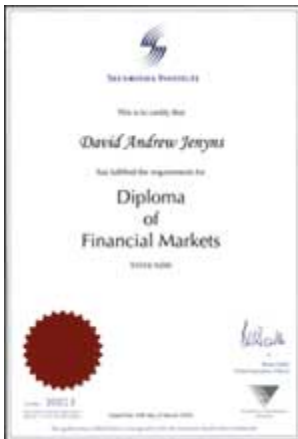
David Jenyns is recognized as one of the leading experts on designing profitable trading systems. This title was earned while working at one of Australia's top brokerage firms, Ord Minnett, at the time of the 2000 internet boom.



David Jenyns Live '04

To date David has authored numerous best selling trading books and courses including, "[The MetaStock Programming Study Guide](#)," "[The MetaStock Secrets Seminar DVD](#)", "[Trading Secrets Revealed](#)" and "[Ultimate Trading Systems](#)."

David's critique on trading, (seen in many trade magazines, including Chartpoint, Your Trading Edge and The Guppy Traders Newsletter) breaks through the common ground, giving readers something to sink their teeth into.



David's Diploma of Financial Markets

David now trades professionally, actively runs seminars, one-on-one training and plans out systematic money making trading systems. On his website ([www.meta-formula.com](http://www.meta-formula.com)) traders can uncover invaluable tools required to enhance their profits.

David advises, "Trading is not a get rich quick philosophy. It is a profession that needs to be mastered."

He consistently motivates scores of people to an incredible and triumphant position...**now it is your turn.**

- Unsolicited Testimonial -

"I have been in business for more than 20 years. During this period I have come across all sorts of people and majority of them, particularly business people, look for a method to "get one up on you". One can't help but to form a view of "standard business person". There are always exceptions, and my opinion is that **you are a very pleasant exception to the rule** of a standard business man.

There are marketing methods, and there are marketing methods. Your approach is the one that is certainly a very preferable one. With your concern on wanting to deliver correct product, rather than maximise sales, is very touching.

You are the type of person that **I would feel very relaxed** to do the business, knowing full well that I will get good **value for the money.**"

- Suresh Jogia, Private Trader

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# Read this First ~ IMPORTANT!

**I wrote this e-book for a reason.**

I have been where you are right now!

If you're like me you have a burning desire to do something.....to build something.....to make something of your finances..... and develop a better life. All you need to know is what to do next. It starts with a simple goal to "make it" with trading just ONCE and to get there you just need someone to show you how to make your trading work. I was in this position once which is why I have developed a trading roadmap for my fellow traders.

Trading is easier said than done and takes time to learn. Should you do a simple search for "stock trading" on the internet you would find hundreds upon hundreds of results. Each website sells its own books, guides, courses, not to mention the "get rich quick" schemes. With so many choices, where do you start?

Let's be frank. My education cost tens-of-thousands of dollars and I learnt the hard way, in the school of hard knocks. But, the good news is I have succeeded and in the process I have learnt a method to design ultimate trading systems.

Right now you have managed to get access to one of the most powerful trading plans ever put together. Search for these secrets on your own and you will find it is like trying to find a needle in a haystack.

Fortunately with my progressive efforts, I found a method to create ultimate trading plans that are unbelievably powerful, lucrative, reliable, yet simple to use - and they're all right here.

What inspired me to reach out and help you? I want you to become an outrageous success.

I believe that traders are made, not born - investors with enough passion, commitment, education, and risk capital can become enormously profitable. Trading is not a get rich quick philosophy. Master this profession and become profitable. By seeking instruction, diligently practice, patience and applying this step by step formula you will ensure the financial future you have always dreamed of.



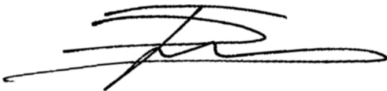
I will reveal to you the Ultimate Trading Systems I have put together. What you do with information is entirely up to you.

**Two assumptions you will need to make:**

1. You need capital (though a lot less than a traditional business) to accomplish some of the things that I teach you in this course.
2. You need a burning passion to make your trading system success. What I teach and demonstrate in this course is not complicated, but it will take a consistent effort. If you make a half-hearted attempt to complete these tasks - you will end up with half-hearted results.

**My suggestion is that you swap your TV time for trading time for two months ...** the positive results you receive will amaze you!

After you complete this course, you will need to continue your educational efforts. Although the amount of time and effort you will need to expend on this project will decrease once you have built your trading plan, you will need to keep at it. Rest assured once you taste success (financial and emotional), you will find it easy to devote the time and energy necessary to reach your trading goals. Here's to your success!



David Jenyns  
Professional Trader, Author and Coach!

PS. Did you download your free bonuses? If not, [click here](#).

# Coaching Classes

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If not – [Click Here](#) for more exciting information!

## NOTE - BEFORE WE BEGIN

This e-book is your roadmap to trading success. Now, rather than rewriting proven trading strategies, I will give you step-by-step directions on where to get a hold of the information you need to succeed in the world of trading. Remember, I can't give you your trading system, I can only give you the map to it - it is up to you to follow it.

Are you eager to get started? Excellent. Let me offer you a particular word of advice. If you are the impatient type, you may want to jump ahead to the "meat" of the course, skipping the "soft" content that covers setting your goals and psychology. If this sounds like you, please resist the urge to skip ahead - instead read this course from front to back.

The "soft" stuff is actually more important than the technical stuff, as you will soon learn. Furthermore, take this as a warning if you do not follow this plan exactly it will not work. So, lock the door, unplug the telephone, grab your favorite beverage and get ready to study every single word of this system - it is *that* important.

## Lesson 1

### Define Why You Want to Become a Trader

Motivational guru Tony Robbins teaches that the *reason* for doing something rates much higher than the methods you use to get the job done.

If you have the strong enough "why" to begin trading – then you will find a way to get the job done.

- Ask yourself – **Why do you want to become a trader?**
- Do you want to create a stream of "passive" income?
- Do you want to create a security for yourself regardless of other sources of income?
- Do you want to supplement your income so that you can afford some of the finer things in life, instead of living from paycheck to paycheck?

In his series "Rich Dad, Poor Dad" of books, Robert Kyosaki advises against anyone securing a part time job....instead you should start a part time business.

Profitable trading is the perfect part time business. It is capitalism's best kept secret. The market makes no distinction about your wealth, education level, ethnic background or any other aspect of your identity. Office politics, difficult bosses and tricky employees do not play a part in trading. You can trade from anywhere. Follow the few simple rules, and you can run your business as you see fit.

Trading is the "perfect business".

Of course, if trading successfully were easy, everyone would be reaping the profits. The truth is most people that trade will lose money. This is a fact for a number of reasons. Of all of them the primary cause of so many people losing money when trading is that they simply do not know how to trade.

If you do not know to trade, that does not mean that you are not smart. On the contrary, there are many highly intelligent people who lose millions of dollars in the market. If you do not know how to trade, there is usually a simple explanation: you do not have a coach or a system. Don't let this deter you.

Most people never master trading because it *seems* difficult to win and they seldom have access to an experienced, successful trader or trading methodology that actually works. They usually go it alone or attend countless seminars and read even more books. Not that reading books is bad, but in most cases nearly everyone never reaps excellent results. How do I know this? I know because I have actually been there...

Trading successfully *is* difficult if you do not know what you are doing. I can show you how to achieve trading success and shortcut your learning curve dramatically. This program will only work for you if you have a strong desire to succeed. It will require you to work a little. After a bit of practice, it will become easy.

You must be willing to drop any pre-conceived notions you have about trading, unlearn bad habits, and develop the discipline required to trade successfully and consistently. Are you willing to do this? Wonderful - now, you can realize your lifelong dreams.

Close your eyes and visualize what being a successful trader means to you; see yourself making trades and trading profitably. Feel the great and relaxed feelings of having extra money in your bank account. This visualization exercise will help you formulate a solid, worthy, personal goal and keep you motivated and focused through this e-book.

**Your first assignment is to write out one primary goal for your trading plan!**

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Take that goal and write it on a 3 x 5 card and put it where you will see it when you wake up in the morning and before you go to sleep each night. If you really want to burn this goal into your subconscious mind *you should read it aloud once each morning and evening.*

This technique really works. It is not "corny". This is a key technique Napoleon Hill teaches in "Think and Grow Rich"; the class success book teaches how to turn your thoughts into riches.

All of the techniques in the rest of this program will have MAXIMUM impact if you know exactly why you want to take the necessary actions each and every day. So do you have your goal clearly stated and written down? EXCELLENT!

**Let's get your subconscious mind right.**

**MUST DO ACTION STEPS:**

1. Write out one primary goal you want to accomplish by sticking to this plan.

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**Have you completed lesson 1's action steps?**

**If not, complete those steps before reading on.**

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*"You have to be able to control yourself. You can not let emotions get in the way of your mind." – Warren Buffet*

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## Lesson 2

### What Separates Good Traders from the Bad Ones?

Let me tell you a little story... On a beautiful late spring afternoon, twenty-five years ago, two young men graduated from the same college. They were very much alike, these two young men. Both were better than average students, both were personable, and both - as young college graduates are - were filled with ambitious dreams for the future.

Now imagine that today we set them off trading. Through a gift, they start with the same starting capital, the same trading platform, and the same trading system with precise rules for entry and exits.

Shockingly, there is a difference. After one month, one trader has gone bust, while the other has returned a 20% profit.

Have you ever wondered, as I have, what makes this kind of difference in people's trading? It is not always a native intelligence, talent or dedication. It is not that one person wants success and the other does not.

The difference lies within your psychology. Your psychological mindset is likely to play a larger role in your trading career than your chosen technique or any other details associated with your day-to-day practice.

Now, I am not the only one to discover this... In his book, [Trade Your Way to Financial Freedom](#), the renowned American psychologist Dr. Van Tharp discusses the role psychology plays in your trading success. He divides trading into three 'Ingredients of Trading'. In his pie chart, System is 10%, Money Management is 30%, and 60% is psychology. He discovered that the trader's psychology has more to do with his success than anything else does.

### What exactly is your psychology?

In short, your psychology refers to your emotional responses to a given situation...In trading, fear, greed, vanity, pride, hope, jealousy, denial - all these can

affect investment decisions. Although your aim in the market is to maximize your profit and minimize your risk, emotions often make this easier said than done.

For example, traders who react emotionally, make the wrong decision – such as the common mistake of holding a losing position in the belief that someday it will become a winner.

This classic mistake is called loss aversion. **Loss aversion** refers to the tendency for people to strongly prefer avoiding losses than acquiring gains. Some studies suggest that losses are as much as twice as psychologically powerful than gains. Loss aversion compels most traders to hold a losing stock while it plummets downward. This clouded judgment clearly contradicts the trading adage “cut your losses.”

These investors also engage in other forms of irrational behavior, like attributing success to skill, and losses to bad luck. Worst of all, this is just the tip of the iceberg when talking about the other devastating effects of trading using your emotions.

The truth of the matter is, without controlling your emotions, most new traders lose all their money very quickly in the markets. In fact, most are completely wiped out within the first year of trading. So, as you can see, your emotions do play a big part in determining whether you fail or succeed.....

## How can you reduce the effects of emotion & negative psychology?

The answer is discipline – without it *you will lose*.

Discipline in the following three areas of trading will ultimately determine your trading success.

- **Training** --- The successful trader never rests on past successes, or believes that his trading ability has peaked. He is always learning and practicing his decision-making skills, honing them until they become second nature. Then he can react faster than a speeding bullet, but with the benefit of superior human judgment. (That is what this course is all about).
- **Trading Rules** --- The successful trader develops set of trading rules – a plan – that he follows religiously. This guides his decision-making at all times. If a trader’s plan dictates that it is time to exit a stock, the trader will exit that trade and not wait a minute longer. (We will cover this topic in detail in the next chapter).
- **Self-Control** --- Successful traders display an extraordinary amount of self-control. Keeping emotions constantly in check, the disciplined trader is immune



to the highs and lows that attend large market swings – whether panic, in a downturn, or of euphoria. I will show you how to learn the secrets of discipline.

These components may seem like a tall order. But that is exactly the point – trading is *difficult* work and *serious* business, demanding time, patience and a great deal of hard work. Master these components and you are on your way to success. Step off the straight-and-narrow path of discipline you will meet certain financial ruin.

The key message about discipline is that without it *you will lose*. It is that simple. You may think, “I understand and I will be disciplined in my trading.” Nevertheless, this is where fear and greed enter into the picture. Shortly after this an emotional rollercoaster ensures the stability of your character.

## Can Discipline Be Learnt?

The big question here is whether you can develop the discipline you do not have naturally. I believe the answer is “yes, you can,” but you must have the necessary commitment to do so.

Clearly discipline can be developed, and you only need to look at an army training program for confirmation of this fact. However, it is one thing to have a vast and experienced organization bearing down on you and being prepared to do whatever it takes to make its point. Nevertheless, it is quite another to do it yourself in the comfort of your own home, with all of the distractions of daily life.

Clearly, self-discipline is a requirement even to start this process.

Ultimately, undisciplined behavior is going to be punished by the market, either by direct losses or by the loss of profits which otherwise have been available.

Private traders who persevere do have external stimuli that will help the process. However, the market does not help as much as it might, because of the principle of random reinforcement. It is the market's tendency to reward bad behavior from time to time.

This crucial fact is one of the reasons why it takes so long to learn how to trade. You need to realize there is no point in having a system, if you are not going to follow it.

To speed up the process of learned discipline, you can read the book Dr. Alexander Elder, author of “Trading for a Living”, wrote the forward to. Titled the “[The Way to Trade](#)” I believe, after reading it, it's easy to see why Dr. Elder said...

*“In the book you are about to read, John Piper takes you beyond theory. He provides an essential lesson that most will never get.”*

This testimonial alone is enough to make “[The Way to Trade](#)” required reading. Moreover, it will give you a great foundation that we build upon in later chapters. Therefore, before moving on to the next chapter, purchase “[The Way to Trade](#)” by John Piper and read it from start to finish.

You can either go to your local bookstore and/or purchase it online by [clicking here](#). By ordering online you can begin reading it within 5 minutes.

**Let’s get your psychology right.**

**MUST DO ACTION STEPS:**

1. [Click Here](#) to purchase a copy of “[The Way To Trade](#)” by John Piper. Your goal in reading this book is to gain an overview of trading and, more specifically, to learn trading discipline.

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**Have you completed lesson 2’s action steps?**

**If not, complete those steps before reading on.**

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## Lesson 3

### Designing a Winning Trading System

This is perhaps the key section of this e-book: *It is your trading methodology that will ultimately determine whether you win or lose in the markets.* While, it is vital that you have the discipline to stick to your plan, it is equally vital that you have one to stick to in the first place.

Sadly, I cannot develop your methodology for you. I can make suggestions and put forth examples, but you ultimately must devise a system that is your own. This is because you must be able to follow it. In order to follow it, your system has to reflect who you are.

Every successful trader has a winning system and there are as many successful systems as there are traders.

Some systems get you to buy on strength and sell on weakness; others do the opposite. Some investors succeed as value investors, such as Warren Buffet; others make their millions in momentum trading. I have even heard of an astrologist who is said to trade profitably using the stars. Although there are a variety of methods, the point I am trying to illustrate here is this: there are many ways to profit from the markets.

Despite their differences, there is one common element amongst all successful traders: they have a systematic way they approach the market. This approach is unique. In reality, no two people have exactly the same amount of money, tolerance for risk, personality, time or experience. Therefore, the key to success is to design a system that is suited for you.

Many traders fail because they do not assess how well a trading system matches their personality. Instead, they chase fads, searching for the "Holy Grail" of trading success; worse yet, they waste their money on the latest investing software or buying up the tapes of the latest self-proclaimed stock market guru.

The fact is there is no *perfect* system. Successful investors succeed because they choose a system that they feel comfortable with, not one that claims to be the cutting edge. A cool, disciplined trader will make money with an "average" system, while a nervous, arbitrary trader will wreck a "brilliant" system.

The key is to develop a methodology that maximizes your strengths and minimizes your weaknesses. But how do you do that? Firstly, you must define your objectives.

**Ask yourself these questions:**

- Am I designing a trading system for cash flow or capital growth?
- Do I want to trade part time or full time?
- How much money can I work with?
- What annual rate of return do I want? (Note: the higher the return, the higher the risk, in most cases).

**Take a minute to think about and answer these questions:**

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Decisions such as these will have the largest impact on the style of your trading system.

For example, if your goal is cash flow and low risk, buying or selling at extreme levels (overbought/oversold) isn't suited to you. If your goals center on quick capital growth, high returns and high risk, then bottom picking strategies and gap trading may be your style.

Styles range from aggressive day traders looking to scalp a few point gains to investors who are looking to capitalize on long-term macro economic trends. In between, there are a whole host of possible combinations, including swing traders, position traders, aggressive growth investors, value investors and contrarians.

Moreover, your style will depend on your level of commitment. Day traders are likely to pursue an aggressive style with high activity levels. The goals would be

focused on quick trades, small profits and very tight stop-loss levels. Intraday charts would be used to provide timely entry and exit points. A high level of commitment, as well as focus and energy would be required.

Unlike day traders, position traders are likely to use daily end-of-day charts and pursue 1-8 week price movements. The goal in this case is to be focused on short to intermediate price movements and the level of commitment would be less than a day trader.

With this in mind, be sure to define your trading objectives as best as you can since your system must match your own criteria or you will never make big profits. You need to complete this simple sentence: "I am trading in the market because I want to....." complete this and you are well on your way to setting your portfolio objectives (see lesson 1).

## What Should You Trade?

With a few portfolio objectives defined, your next step is to decide what market you are going to trade in order to reach your portfolio objectives.

To select the most appropriate market, I suggest you pick a market you are familiar with or one in which you would ultimately like to trade. There is no right or wrong answer. Unfortunately, there is no "best" performing market...

The important decision is to select *one* market. Avoid the tendency to want to trade everything and realize that there are enough potential profits by trading just *one* market. Many traders fall into the trap of thinking the more they trade, the more money they will make. Unfortunately, this could not be further from the truth.

Real money is made by mastering your chosen market and understanding it is not the selection of the market that makes the money. I personally am less concerned about the markets I trade, and the securities I choose within those markets, than I am with the plan I am entering those specific markets with (but more on this later).

You can successfully trade any of the markets I have outlined below... just be sure to choose **only one**:

### 1. **STOCKS**

Plain and simple, stocks are a share in the ownership of a company. Stocks trade on a stock exchange, which is basically a venue to buy or sell a stock. In this arena, big players such as Warren Buffet and Merrill Lynch dominate the market. That said,

don't be scared off because, if you're new to trading, this is probably the best place to start.

## **2. OPTIONS**

Options are a leveraged instrument that derives its price from an underlying security (stocks for example). They give the buyer of the options contract the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date.

So, unlike a stock, which represents equity in a company and can be held for a long time, if not indefinitely, options contracts have finite lives.

Basically options are the next step up from stocks in their complexity. They introduce the opportunity to leverage your money and increase profits.

## **3. COMMODITIES**

Without going into too much detail, commodities trading involves the trade of raw materials. Such as grains, livestock, precious metals, energy, etc.

Commodities trading can be a great stepping stone for trading more advanced markets.

## **4. FUTURES**

In a similar vein to options, futures contracts also have finite lives. They are primarily used for hedging commodity price fluctuation risks; or for taking advantage of price movements, rather than for buying or selling the actual cash commodity.

The buyer of the futures contract agrees on a fixed purchase price to buy the underlying commodity (wheat, gold or T-bills, etc.) from the seller at the expiration of the contract. This differs from options, where the buyer has the right to purchase the underlying commodity, but is not obligated to do so.

As time passes, the contract's price changes relative to the fixed price at which the trade was initiated. This creates profits or losses for the trader.

Futures trading is one of the more complex forms of trading, but along with the increase in the skill level required, there are greater rewards (in terms of return on investment (ROI)).

## 5. FOREX

Forex - short for foreign exchange - is trading where the commodity is currency. What makes the Forex market unique is that, unlike other financial markets, the forex market has no physical location or central exchange. Additionally, this market trades 24 hours and its daily volume exceeds \$1.4 trillion, making it the largest and most liquid market in the world.

While this sounds exciting, it's not for the faint hearted. Forex trading can be fast and furious. If you're just starting out, unless you have your heart set on trading the Forex, I recommend that you prove that your trading plan can trade profitability in other non leveraged markets (e.g. stocks) before entering into this market.

### Side Note:

Remember, with trading any leveraged product, you are faced with a double edged sword. On one hand, the leverage will increase your winning trades, however on the other hand, it will increase your losing trades too. The secret to successful trading is to first learn to trade unleveraged markets profitably and then take this system and increase the leverage gradually. In this way you will clearly understand the risks involved and also position yourself for the best possible chance at success.

**After reviewing the markets outlined above, write down - in the space below - which market you would like to trade in:**

Alternately, if at this point you are new to the trading game and have absolutely no idea what you would like to trade, I recommend you purchase Bill Polous' course "[Instant Profits.](#)" What makes this course so invaluable to the beginner, and even the advanced trader, is that you will learn the key principles to trade multiple markets. With this knowledge you can then choose the market that makes most sense to you.

**Let's get your portfolio objectives right.**

**MUST DO ACTION STEPS:**

1. Answer the portfolio objectives questions.
2. Affirm today: "I *will* find a system that fits me and I will become THE world's best trader at this ONE style of trading".
3. From the list, select from the list a trading market you are familiar with or one in which you would ultimately like to trade. If you are still not sure, purchase "[Instant Profits](#)" ([Click Here To Get Your Copy](#)).

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**Have you completed lesson 3's action steps?**

**If not, complete those steps before reading on.**

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*“If I have eight hours to chop down a tree, I would spend six hours sharpening my axe.” – Abraham Lincoln.*

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## Lesson 4

### What is a Trading Plan?

Contrary to popular belief, you do not need to know where market tops and bottoms are to make money in the markets. In fact, that is where most people go wrong. The best traders in the world realize that neither they nor anyone else knows what is going to happen. Sure, everyone can point out tops and bottoms after the fact, but no matter what anyone tells you or tries to *sell* you, **NO ONE** can pick tops and bottoms consistently. So how do you make money without picking tops and bottoms?

I am glad you asked.

Successful trading is not dissimilar to a successful business. You see, every successful business has a business plan and so do successful traders. The astute reader may have already realized this from the previous chapter, where I mentioned that “successful traders have a systematic way they approach the market.”

A trader’s business plan is known as a trading system; it defines your approach to trading. A properly constructed trading system will leave no room for human judgment, because it will define your actions, given any circumstances that may arise. It is a distinct set of rules which will instruct the trader what should be done and when to do it.

The importance of a trading plan cannot be understated. Without a consistent set of guiding principles to govern your trading decisions, you will most likely hop from one trade to the next, impelled by emotion or hysteria. I believe by not having a plan, you are planning to fail.

Trading systems themselves will come in many varieties, and they all take the guesswork out of trading. A trading system will determine for you when to buy or sell. “System trading” has proven itself consistently to be the most effective long-term trading technique.

In fact, you may have even heard the story about one of the most famous system traders of all time, Richard Dennis. It just so happened (in mid 1983) that Dennis was having an ongoing dispute with his long time friend Bill Eckhardt about

whether great traders were born or made. Dennis believed that trading could be broken down into a set of rules that could be passed on to others. On the other hand, Eckhardt believed trading had more to do with innate instincts, and that this skill comes naturally.

In order to settle the matter, Richard suggested that they recruit and train some traders and give them actual accounts to trade to see which one of them was correct. He named his protégés after visiting turtle farms in Singapore; he decided to grow traders like the farmers grew turtles, hence the name: Turtles.

To cut a long story short, Dennis taught his trading methodology to these groups of students who later became some of the most successful traders of all time; proving once and for all, that **system trading could indeed be taught**.

Just like the turtles, I too have studied under a mentor who tutored me in the “science” of trading. And now I am passing these secrets on to you.

A trading system is simply a set of rules that address every aspect of a trade such as entry and exit conditions and money management. Regardless of how complex it may be, a good test for your trading plan is to hand it to someone else to read thoroughly and then see if they have any questions about it. If they can easily understand all the rules and the requirements of your strategy with little to no questions, then you have compiled a sound investment plan.

*All successful traders* that I have come in contact with can do this. What’s more, they have their exact trading methodology written down.

Since most traders lose money and do not have their trading methodology written down, does not it make sense to do what everyone else is not doing? If you are trading now and have not taken the time to clearly write out methodology, then *stop trading* and get it done!

Why is it so important to write a plan? When you take time to sit down and spell out how you perceive the markets, *you are accepting the fact that you might be wrong*. You are beginning to accept responsibility. Once you write down how you perceive the markets, the only conclusion you can arrive at, if the market does not behave according to what you wrote, is that your perception is wrong. When you write down how you are going to enter a trade only if certain events transpire, you are eliminating any possibility of misplacing the blame on the market. You are forcing yourself to have discipline.

When you take the time to write down your trading rules, you are also transforming your mental reality to a physical reality. You will no longer be able to fudge the

numbers, or avoid taking responsibility.

By writing down your methodology, you are forcing yourself to create a series of decisions based on how you see the markets.

## **The Format of Your Trading Plan:**

Again - to draw on the business plan analogy - just as there is a standard format for designing any business plan, there is also a format for designing a trading plan. In fact, there are three major components within any trading plan: entry, exits and money management rules. In the chapters that follow, we will go into these in more detail and you will work through a process to design each component. Here is a quick summary:

### **1. Tested Entry Rules**

Entry rules are a precise set of rules that a tradable instrument must pass before you enter a trade. Entry rules should be simple, direct, and leave no room for human judgment.

### **2. Strict Money Management Rules**

Perhaps the most important and least addressed aspect of trading is the ability to manage risk. A profitable trader is one who has the ability to manage the risks associated with trading. This is achieved with strict money management rules.

### **3. Tested Exits Rules**

Entering a stock is all to no avail if you do not know when to exit your position. Having a set of rules that define your exit is equally important as a set that defines your entry.

Although simple in their explanation, these three components can together and will have an enormous effect on your trading. The advantages of utilising a trading system are numerous; most market participants agree that their greatest benefit is the tempering of destructive emotions, considered the enemy of all successful traders, and removing it from the decision making process.

While it is true that there are no holy grail trading systems however, what you'll learn in the following chapter is about as close as you can get.

**MUST DO ACTION STEPS:**

1. The good news is there are no action steps for this chapter. Just continue to affirm “*I will* find a system that fits me and I will become **THE** world’s best trader at this **ONE** style of trading”.

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**Have you completed lesson 4’s action steps?**

**If not, complete those steps before reading on.**

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*"I do not think trading strategies are as vulnerable to not working if people know about them, as most traders believe. If what you are doing is right, it will work even if people have a general idea about it. I always say you could publish rules in a newspaper and no one would follow them. The key is consistency and discipline." – Richard Dennis*

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## Lesson 5

### The Perfect Entry

Any trading strategy starts with a universe of securities from which you can make your selection. It's often easy to pick the universe of securities you are going to trade in but harder to know that you're picking the right ones.

There are many securities to potentially choose from and there are a vast array of factors which can influence the price of a security; So, where do you start? The answer lies in stock screening. Stock screening is a basic stock trading strategy that involves the trader screening the entire universe of securities for potentially favourable investments.

Just like sifting through a bucket of sand trying to find pieces of gold, the same approach is used to reduce your universe of securities to a more favourable selection. After you have reduced the universe of securities you can continue your filtering process, until you find the most attractive candidate for trading.

This filtering process is best defined as strict set of rules. But there is a problem. The problem is that there are as many theories on buy-on-sell price points as there are investors and traders around the world.

Your personal approach to entries should be simple, direct and leave nothing to human judgment. This is contrary to what most traders who buy stocks based on media reports, expert opinions, rumors or "gut feel". The good news is that by acting contrarily, you will do what most traders never do: make a profit.

Most investors believe that the key to success is being able to pick the winning trades. And this is why 99% of traders, spend most of their time fidgeting with the entry. They are looking for the holy grail. Remember, there is no Holy Grail.

Now don't get me wrong, proper entry is important. Entry gets you into the trade but it only contributes to 10% of the profits. It would be as if you were building a home and spent most of your time concentrating on the entry way and ignoring the

foundation, walls and roof. Your exit and money management (foundation, walls and roof) will provide the other 90% of the profit.

Actually, it has been proven that with good exits and money management, you can even profit on random entries into the market. Take the following real-life example:

*Tom Basso designed a simple, random-entry trading system ... We determined the volatility of the market by a 10-day exponential moving average of the average true range. Our initial stop was three times that volatility reading. Once entry occurred by a coin flip, the same three-times-volatility stop was trailed from the close. However, the stop could only move in our favor. Thus, the stop moved closer whenever the markets moved in our favor or whenever volatility shrank. We also used a 1% risk model for our position-sizing system. ...*

*We ran it on 10 markets. And it was always, in each market, either long or short depending upon a coin flip. ... It made money 100% of the time when a simple 1% risk money management system was added. ... The system had a (trade success) reliability of 38%, which is about average for a trend-following system.*

Source: Van K. Tharp, [Trade Your Way to Financial Freedom](#)

This best illustrates that although entry is important it is probably the least most important aspect of designing a trading plan. Moreover, most traders “spin their wheels” trying to get in at the proper price, using stops, limits and every other trick in the book even though this is not where the money is made. The money is made by paying close attention to money management (more on this in the next chapter). However, the fact remains you still need some method of entry.

Just as many traders have before me, I too have spent countless hours researching different entry signals looking for that elusive Holy Grail. Would you like to know what I discovered? Quite simply, it is easier to copycat your way to success than to try to re-invent the wheel.

According to Anthony Robbins (The USA personal development guru and lifestyle coach to presidents and famous actors) the way to get the best health is to find the healthiest people we can find and ask them what it is they are doing and thinking to be so healthy. Similarly, the way to select your entry rules is to copy a proven system!

That is how the smart (and rich) people do it.

Sure, you can waste months and spend thousands of dollars testing different methods, but why put yourself through that?

Personally, I would rather be a **“wealthy copycat”** than a **“broke original thinker”**.

For this reason (and to shortcut your way to trading success) I have hand picked the best entry systems available for your chosen market. Please, understand I am by no means saying that **without these entry systems you will fail**, but instead I offer you two choices:

1. You can design your own entry rules, back testing thousands of variables yourself. This can take a lifetime in itself, just look at Fibonacci or Gann who spent the majority of their life perfecting their entry systems.

*Or*

2. You can purchase a ready made entry system that you literally just drop into my step-by-step plan, **confident in the fact that someone else has done all the hard work for you.**

Personally I think the choice is easy, but ultimately it is you who must decide because I don't what know your current time and financial position is.

If you've decided option 2 suits you best then look at the proven and tested entry rules that I have hand picked for you based on the market you decided to trade. (If you do not remember which market you chose, go back to the chapter 3 action steps).

These courses will not only educate you on the market you choose but they also provide you with the exact entry rules that you need to include in your trading plan.

**Click on the corresponding market you selected and purchase your entry rules now:**

1. [Stocks](#)
2. [Forex](#)
3. [Futures](#)
4. [Options](#)
5. [Commodities](#)

If you're still unsure what market to trade I recommend you purchase Bill Polous' course "[Instant Profits.](#)" Armed with what Bill teaches you, you can then choose the market that makes most sense to you.

Your next step is to document your new entry rules. Remember a good set of entry rules are simple, direct and leave no room for human judgment. Take the entry rules from your selected program and write out exactly how you will enter a position.

**YOUR ENTRY RULES:**

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After documenting your entry rules you just put yourself into the top 5% of traders. Congratulations!! Over the next couple of chapters, you will begin to move into the top 1%.

**Let's get your entry rules right.**



**MUST DO ACTION STEPS:**

1. Purchase the program that corresponds to the market you decided to trade in, in Chapter 3 - Click the link below:
  - i. [Stocks](#)
  - ii. [Forex](#)
  - iii. [Futures](#)
  - iv. [Options](#)
  - v. [Commodities](#)

Still not sure what to trade? Purchase Bill Polous' [Instant Profits](#).

2. Read the program and write down in plain English the entry rules as outlined in the program.

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**Have you completed lesson 5's action steps?**

**If not, complete those steps before reading on.**

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*"Do not focus on making money; focus on protecting what you have." – Paul Tudor Jones*

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## Lesson 6

### Excellent Money Management

To begin with, let me destroy a common myth: there are no trading systems that will pick winning trades one hundred percent of the time. Despite this fact, many novice traders undertake a determined search to find the perfect indicator(s) that will lead them to trading success. Even though this may sound absurd, you too may search for the silver bullet to slay the market. So why do most market participants search for this perfect entry? I believe the reason is a subconscious one.

The problem is that focusing on your entry you get a feeling of control. The point you have chosen to enter the market is the point at which the market is doing exactly what you want it to do. As a result, you feel like there is some sort of control, not over the entry, but over the market. This is where most traders go wrong.

Let me save you the time and money with this **IMPORTANT TIP!**

No such perfect indicator exists. It does not today, never did and never will.

Please save yourself hours upon hours of your valuable time... and devote yourself to a more fruitful activity.

Once you are in a position in the market, the market is going to do whatever it wants to do. We cannot control the direction of the market, or the extent of the move. There is only one component we do have control over and that is your money management. Here lays the true Holy Grail of trading.

Jack Schwager's book *Market Wizards* makes some intriguing statements about money management. In *Market Wizards*, Jack Schwager interviews some of the world's top traders and investors. Practically all of them talked about the importance of money management.

Here are a few sample quotes:

*"Risk management is the most important thing to be well understood. Undertrade, undertrade, undertrade is my second piece of advice. Whatever you think your position ought to be, cut it at least in half." -- Bruce Kovner*

*"Never risk more than 1% of your total equity in any one trade. By risking 1%, I am indifferent to any individual trade. Keeping your risk small and constant is absolutely critical." -- Larry Hite*

*"You have to minimize your losses and try to preserve capital for those very few instances where you can make a lot in a very short period of time. What you can't afford to do is throw away your capital on suboptimal trades." -- Richard Dennis*

Despite its importance, money management still remains relatively unknown by many traders and investors around the world. The reality is that most people look at trading as a game of odds. True it does contain odds, but odds alone do not tell the whole story.

When *you* look at trading systems, are you someone who only looks at the ratio of wins to losses? After all, it seems logical that a system that generates 8 winning trades out of 10 is better than one that only has 4 out of 10... right? wrong.

The best way to look at trades is this:

Winning and profiting are two totally different things. If your system has an 80% odd of winning \$1 and a 20% chance of losing \$100, this is a negatively biased system, or in other words, has a negative expectancy. Therefore, despite the fact that you may experience many winning trades, in the end you are bound to lose everything. Stringing together a couple of dozen winning trades, valued at \$1 each, followed by a single loss of \$100 will guarantee a trip to the poor house.

Expectancy is calculated as:

$$(\% \text{ of Wins} \times \text{Average Win Size}) - (\% \text{ of Losses} \times \text{Average Loss Size}) = \text{Expectancy}$$

So in our example we can see that:

$$(80\% \times \$10) - (20\% \times \$100)$$

$$\$8 - \$20 = -\$12$$

**This strategy has a negative expectancy a system that has a positive expectancy could lose 80% of the time, yet still be profitable.**

Using the same numbers:

$$(20\% \times \$100) - (80\% \times \$10)$$

$$\$20 - \$8 = +\$12$$

Is this example too far fetched? No. I have witnessed day in day out the common trading patterns of would be professional traders. The instinctive action is to take profits the moment they appear, and ride losses until they are unbearable. That is exactly what an 80% win to 20% loss negative expectancy system looks like. They take lots of small wins, but lose their profit and more to the few losses they let become huge. The major reason why people fall prey to this is because they do not have a clearly defined money management rules.

## So what is money management?

Simply money management is a set of rules and guidelines that keep your risk at a level at which you are comfortable with. It includes rules that define exit points, maximum loss per trade, maximum exposure and other key variables that affect your capital allocation.

Money management answers the questions such as:

- When should you exit a trade?
- What is the exact amount of risk you accept for each trade?
- How large should your position sizes be?

Although, these questions may sound simple, what makes the answers so critical, is that if you get it “right” you can be wrong 50% of the time & still make money. Money management rules truly are your safeguard against financial ruin.

At this point, I feel it’s prudent to repeat the goal of the Ultimate Trading Systems - “to provide you with a step-by-step road map to designing profitable trading systems.” Remember, if I make a suggestion for a resource, it's only because it will **speed up your success...**

My mentor in this area of trading was an amazing trader and psychologist called Dr Van Tharp. And although I recommend his book - [Trade Your Way to Financial Freedom](#) - many people feel it is simply out of their reach. The language he uses and his ideas can, at times appear, very complex and sophisticated. I must admit, I did have to read and re-read this book numerous times to fully understand his concepts.

It has taken me years to simplify these rules and although it was a tough road to pave, the rewards have been worth it. The good news is you do not have to go down the same long road I did. After countless clients asking for coaching on this topic, I decided to create a system that takes you through the process of designing excellent money management rules step-by-step. I named it “[Trading Secrets Revealed](#)”.

Trading Secrets Revealed really is the first package of its kind, since it reveals the secrets I, and many other professional traders use to consistently make profits from the markets... best of all it does so in a no B.S. no fluff, no nonsense fashion.

Don’t take my word for it though, the response to this package has been phenomenal...

Here is what one client said:

### **Trading Secrets Revealed Testimonial**

*“ I wanted to let you know that since I read your material in early May, I have implemented several items, including limiting my loss to 2% of float and using your initial and trailing stops, into my own trading system. As a result I definitely have more confidence and less stress about my trades.*

*I am happy to report that my **portfolio in June grew 49%**. Thank for your help and keep up the great work.”*

**Ed Gallagher - Private Trader - Pennsylvania, USA**

By learning money management you too can achieve results just like these. Again you have two choices, you can either read the complex concepts in [Trade Your Way to Financial Freedom](#) or if you'd like to learn these secrets in an easy to listen to audio course check out [Trading Secrets Revealed](#) (I'll even go through in a whole host of bonuses if you do).

At the completion of the program, your next task is to get your money management rules written down.

Similar to your entry rules, excellent money management rules are simple, direct, and leave no room for human judgment. Take the money management rules from [Trade Your Way to Financial Freedom](#) or [Trading Secrets Revealed](#) and write out exactly how you will manage your risk.

<b>YOUR MONEY MANAGEMENT RULES</b>

Remember, money management really is the most important aspect of any trading system. By documenting this step, you have put yourself into the top 3% of traders.

*Congratulations!! You are moving closer to the top 1%.*

Let's get your money management rules right.

**MUST DO ACTION STEPS:**

1. [Click Here](#) to purchase a copy of [Trading Secrets Revealed](#). Soon you'll discover the secrets to money management.
2. Listen to Trading Secrets Revealed and write down in plain English the money management rules as outlined in the program (you may also need to reference the package you purchased in the previous chapter containing your entry signals).

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**Have you completed lesson 6's action steps?**

**If not, complete those steps before reading on.**

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## Lesson 7

### **IMPORTANT:**

For a more detailed explanation of this chapter, be sure to work through your copy of [Trading Secrets Revealed](#). This chapter, rather than repeating Trading Secrets Revealed content, is designed to be a quick refresher.

### The Perfect Exit

Buying the correct stock and the correct number of stocks is all to no avail if you do not know when to exit a position. In fact, having a strategy that defines your exit is as important as defining your entry. This is simply common sense. However, most traders do not devote any thought to this important aspect of a trading system.

Before you enter a trade, you should know where your exits are. There are at least two for every trade. First, what is your stop loss if the trade goes against you? Secondly, what is your trailing stop if the trade moves in your favour? Remember these stops must be written down. Mental stops don't count.

Sadly, most novice traders are doomed to break the age old rules of trading by "letting your profits run and cutting your losses short." They do this simply by failing to define their exit rules. The truth is that, psychologically, humans are hard wired into believing that they must be right.

Here's what I mean, when the undisciplined trader enters into a trade they expect to profit from this trade. If, however, the stock price goes against them, they further feel they are "right" and justify why they bought the stock by holding onto it until it turns a profit. Unfortunately, and most likely, their losses are compounded as time passes.

Similarly to the case of a loss, if the position moves in their favor, the undisciplined trader sells the position at first sight of any profit. They have an inherent need to crystallize this winning trade and be "right". Clearly, this is in direct conflict to the rule of letting your profits run.



Both these situations can be avoided by predefining exit points. Think of setting your exits as an ejector seat when things go wrong and a seatbelt to strap you in when things go right. As with entry conditions, exits should be precisely defined and 100% mechanical.

You are now ready to document your exit rules. Using both *Trading Secrets Revealed* and the package containing your entry signals, your next task is to get your exit rules written down.

<b>YOUR EXIT RULES</b>

By documenting your exit rules you have just put yourself into the top 2% of traders. Congratulations!! You are almost in the top 1%.

**Let's get your exit rules right.**

**MUST DO ACTION STEPS:**

1. Using your copy of [Trading Secrets Revealed](#) and your entry signals package - write down in plain English - your exit rules.

**IMPORTANT:**

At this point you should have now have fully documented the 3 components of your trading system... That said, we have not yet discussed perhaps the most important area of designing any trading system. It is this area that will provide you with the confidence you need to trade your system. Be sure to keep reading.

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**Have you completed lesson 7's action steps?**

**If not, complete those steps before reading on.**

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## Lesson 8

### Choosing Your Charting Software

A trading system is of no use without the tools to implement the system. However, choosing a package, or deciding whether to use one at all, can be very confusing to a beginner. This is especially true when you consider that there are literally hundreds of software packages available to assist traders.

When looking at packages, do not spend a thousands of dollars buying any charting software. Often the price is inflated to capitalize on the mentality that the more expensive the better. Truthfully, most charting packages perform very similar functions and a charting package under \$1000 will perform just about all of the tasks required by even the most advanced traders.

Secondly, choose a charting package that has a large user base... that way, when and if you need help, there will be plenty of support channels available to you.

Personally, I use and recommend [MetaStock](#) (I have used it for years). It contains just about every bell and whistle a trader would need. It is also easy to use and is considered a market leader for good reason. In fact, MetaStock has been voted the winner of the "Stock and Commodities Reader's Choice Award for best analysis software" 11 times.

By far the most powerful feature of MetaStock is the Exploration module. Quite simply the explorer gives the user the ability to scan through tens of thousands of securities at a single time identifying only those that meet predefined criteria. This function alone makes MetaStock invaluable. It almost completely automates your trading system.

The exploration module is just one benefit; MetaStock also has the advantage of some invaluable back testing options too (we will cover the importance of these next chapter).

The other good news is that, Equis boasts a user base of over 100,000 users for their MetaStock products. So you can be sure to find any support you may need.

You won't have to look very hard for support either; I have set up a website with the sole purpose of helping the MetaStock community [www.meta-formula.com](http://www.meta-formula.com). On this website alone, you will find all the support you need to get the most out of MetaStock.

No matter what charting software you do decide to go with, I will offer you a word of advice. It is important to recognize that software is simply a tool that aids a trader in undertaking their business activity. There is no such thing as a software package that does everything for you.

Steer clear of any packages that gives buy and sell recommendations. Commonly referred to as "black box programs." I have found, with rigorous testing, that black box program packages simply do not work.

In general, traders who believe in the myth that you can just hand over your hard earned capital to a computer program and sit back and collect checks and build wealth are not dealing with reality at all.

They want to make the money successful traders do, yet they do not want to put in the hard work necessary to develop the skills needed to become and stay successful.

Your time and money is best spent elsewhere.

While I do I recommend MetaStock, these are some other packages worth looking into including: Advanced Get, OmniTrader, SuperCharts, AmiBroker, Market Analyst and TradeStation.

**When you're ready, in the space below, write down which charting software you plan to use:**

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Lastly, charting software is not much good without market data. Yes, some software packages offer their own data feeds, but most operate with third party feeds. Which data provider you go with will vary depending on what software and market you decide to trade.

Nevertheless, as you would imagine I have tested just about every data provider you can find, after all that, I have found one does just about everything.

If you'd like to learn more about this [total data management solution that I have](#)

[found click here.](#)

Not only does it support stocks, futures, and foreign exchange for markets in Australia, Asia, Canada, Europe, UK and USA but it is also compatible with most charting packages. It really is a total data management solution. Alternatively, you may like to do some research.

**Once you have found an appropriate data provider in the space below, write down which data provider you will use:**

Let's get your charting software & data right.

**MUST DO ACTION STEPS:**

1. Purchase a charting package - [Click Here](#) to purchase [MetaStock](#).
2. Learn how to use to use your charting package to its full potential - [Click Here](#) if you purchased MetaStock.
3. Select a data provider - [Click Here](#) to see our suggested total data management solution.

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**Have you completed lesson 8's action steps?**

**If not, complete those steps before reading on.**

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*"Every day that goes by, without back testing your system, is costing you money."*

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## Lesson 9

### Secret Art of Back Testing

You would have to agree that any wise investor will do as much testing as possible before starting to trade a system with real money.

Back testing is the process of testing a trading strategy over historical data to determine how well it would have performed over that set of data. Interpreting these results then provides the trader with sufficient information to assess the potential of the trading system.

Logically, we know that the results from this type testing will not be able to predict future returns. However, it can provide an indicator as to whether you should even pursue a trading system or not.

The truth of the matter is that whatever technical analysis criterion you use to trade with - be it moving averages, candle sticks, volatility breakouts, fibonacci retracements or any other trading system - you're going to need to back test it thoroughly, in order to remove any possible doubt about it's capability.

Without back testing a lack of confidence arises and usually forces traders to question their own trading systems. They give into the temptation to modify their trading plan with devastating consequences. This temptation spawns from a string of losing trades or an opportunity to replace their trading system with a whiz-bang indicator that is usually talked about in trader chat forums.

Anything that sounds too good to be true will attract the attention of any trader who is not satisfied with their trading system, simply because they have not properly tested their system in the first place. In addition, they have not built up the necessary confidence needed to successfully trade the system developed.

In the end, negative subconscious thoughts will only hinder and destroy your ability to trade successfully. To improve your confidence in your trading system, you need to thoroughly and objectively back test it - simple as that! Only then will you be confident enough to commit time and money to it!

## The Importance of Back Testing

When trading, what is the question in the mind of the most traders? To answer this question, I shall quote the introduction from Chapter 8 "Back Testing" of Mark Jurik's book "Computerized Trading".

### *Will my trading strategy be profitable?*

*After having gone through the arduous process of crafting a trading strategy, this is the question you must ask yourself. The ability to answer that question is the great promise that back testing holds out for all traders. A successful back testing procedure will greatly reduce the probability that you will begin trading with either an unprofitable strategy or one that does not meet your expectations. By adopting a sound and rigorous back testing approach, you will:*

- ✓ Pinpoint which approaches to the market that are likely to be successful and which ones are not.*
- ✓ Generate good estimates of future performance for each trading strategy you test.*
- ✓ Create a record of your trading strategy's historical trading performance.*
- ✓ Produce data necessary for other components of your trading approach such as your asset allocation strategy.*

... But the question remains, how can you test a trading system's performance over time? There are only two ways to do this, manually or with computer software. To be honest, computer software is the only "real" option. I have done both testing methods and manual testing is not only time consuming but very hard to replicate and test effectively.

The benefits obtained from back testing software cannot be underestimated. It will save you time and provide an endless opportunity to fine tune and test variations of your ideas. A small outlay in capital to purchase good back testing software will potentially save you thousands, in the market; it is a very wise investment if you are considering designing a successful and mechanical trading system.

For those of you who decided to purchase [MetaStock](#), your choice is easy... I have done the research and found the first realistic, true trading simulator/analyzer for Metastock that can quickly back-test and evaluate a trading system across a portfolio

of securities. It's called [Tradesim](#).

In short, TradeSim can evaluate the historic performance of a given trading system within a matter of minutes and do it with a realistic representation of a real-life trading scenario. Whether a single security or a multiple security portfolio, TradeSim answers the simple question:

**"What would have happened if this system had of been traded in the past?"**

Sounds simple - but it is extremely complex, if not impossible, to do with most charting packages as it stands. However, with TradeSim it is just a simple matter of running it alongside Metastock and analyzing the resulting trade data.

Don't take my word for it though... here's what one trader said:

"I have read dozens of books on trading, subscribed to various newsletters and attended countless seminars, so I thought I knew it all. That was until I purchased Tradesim Professional and boy was I in for a real shock. Believe me when I say this, TradeSim is the best teacher by a long mile..."

**I.B - Washington, USA**

With TradeSim, Metastock becomes more powerful than it ever was - even rivaling trading packages costing many thousands of dollars!

You are probably not aware that to approach the functionality and power that TradeSim adds to Metastock, you would need to spend many thousands of dollars to get the combination of both packages put together. Even then, competing packages fall quite short when it comes to analysis power and options, as well as simplicity of operation. TradeSim was built right from the ground up with the professional trader in mind!

Your system may look good... "But what about its real world trading performance?" Typically your system will consist of entry and exit triggers as well excellent money management rules. These parameters basically define a framework for a trading system. The trouble with trying to back test a trading system with most other packages is that they provide an extremely limited interface. As a result, with these other packages, you're given a distorted view of your potential trading system's performance.



TradeSim addresses all of the above issues, whilst exploring new ground in technical analysis it also uncovers new issues that have not been addressed by current software technologies.

For the first time you can back test your trading system the way you would trade it and objectively analyze its performance! This really is the final step in designing a trading system yet very few traders have the knowledge or patience necessary to test the profitability of a trading system.

I believe back testing is the only way to remove self doubt. Once you have established that you have a reliable and robust trading system only then will you be confident in trading it.

Your next step is to buy yourself a backtesting package - I recommend [TradeSim](#).

**When you're ready, in the space below, write down which backtesting software you plan to use:**

The final piece in the system design jigsaw puzzle is to take the trading system you have designed in the previous chapters and test it. By testing your systems you have just put yourself into the top 1% of traders. Congratulations!! You are there!

**Let's get your back testing software right.**

**MUST DO ACTION STEPS:**

1. Purchase a back testing package - [Click Here](#) to purchase TradeSim.
2. Back test your newly designed system including your entry, exits, and money management rules. If you need help on this topic visit [www.meta-formula.com](http://www.meta-formula.com)

## **A Final Word of Warning:**

If you find yourself testing and testing, in the hopes of stumbling across that magic secret, remember, you will never create a trading system which has a 100% success rate. Many have tried and everyone has failed.

You should be looking for a good trading system with minimal draw-down and a good reward risk ratio. Many trading systems have more losing trades than they do winning and yet they still makes money. How? Well, as you learnt in Trading Secrets Revealed, the holy grail of trading is your Money Management.

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**Have you completed lesson 9's action steps?**

**If not, complete those steps before reading on.**

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## Lesson 10

### Analyzing Trading Systems

The astute system tester may have realized that a slight change in a trading system's variables can have dramatic effects on its profitability. But is profitability the only criteria by which you should be evaluating a trading system?

Clearly the answer is NO!

Here are just a few other criteria you need to look at:

- Are you satisfied that your system is reliably profitable?
- Will your draw downs wipe out your account?
- Is your system trading in a way you can tolerate?
- Can you tolerate long periods of no trading or too much trading?
- Can you tolerate a large string of losses?

To fully answer these, and other similar questions, you must analyze the results from your back testing. Unfortunately, with the plethora of trading statistics that most back testing programs provide, this can be easier said than done. I believe you really only need to pay attention to a few critical statistics. Here are the ones I pay close attention to:

#### *Win/Loss Ratio*

When you assess the performance of a trading system, one of the first statistics that gives you a good indication of the strength of that system is the Win/Loss ratio. Quite simply, this is the ratio of the average winning trade in dollar terms, against the average losing trade in dollar terms.

If this ratio indicates you are, on average, winning more than you are losing, you are on the right track. However, realize that this statistic on its own isn't enough because it doesn't consult how much was risked to produce that gain or loss.

#### *Risk Multiple*

The risk multiple (R-Multiple) builds upon the win/loss ratio in that this is the win/loss ratio compared to the amount of money risked to make that win/loss.

It's a measure of the reward obtained from the trade compared to the amount of risk taken for the trade.

For example, if you risk \$100 and make a profit of \$500, then you have made 5 times the amount you risked in the trade, in which case, you have an R-multiple of 5. This means that for every \$1 you risked you were rewarded with \$5.

Similar to the win/loss ratio, this statistic on its own isn't enough to determine whether a trading system is worth trading.

### *Expectancy*

A trading system's expectancy is perhaps one of the most powerful statistics you can have because it is a way of quantifying the performance of a system that is independent of the size of the trading float.

Simply it answers the question how much money can my system, on average make for every dollar that I risk?

In short, it returns the expected dollar return for each dollar risked by the trading system. This is different to the reward risk ratio which we described above, that was a specific ratio of reward to risk. Expectancy defines a return in dollar terms for every dollar that you risk.

For example, a system with positive expectancy is one in which a positive dollar return is expected for each dollar risked. If your system has an expectancy of +0.75, on average you would expect to make .075 times the amount you risked in the trade. If you risk \$1, then you would expect to make on average \$0.75 for every trade you take.

As a guide, if you can achieve expectancy of \$0.60, you have a good profitable trading system.

### *Number of Trades*

Then there's, the number of trades a system gives over the course of a year. I find this an invaluable, yet rarely talked about, statistic.

Your trading system should not give too many or too few trades. The number of trades that a trading system gives should be approximately the same as what can realistically be taken.

The two sides of the coin are equally dangerous. If a system gives too many trades, you will be forced to choose between signals, therefore adding ambiguity to the system. With ambiguity comes human discretion and this often has a detrimental effect on the performance of the trading system.

On the other hand, if a system gives too few trades, your trading capital will not be fully utilized and you may not be taking full advantage of the available trading opportunities.

So how do you calculate the optimal number of trades for a trading system? I'm glad you asked ☺

This is done with the calculation called "opportunity." In short, opportunity helps determine your optimal opportunity for a trading system.

Opportunity =  $(240 / \text{Average Days In Trade}) * (\text{Trading Float} / \text{Average Trade Size})$

For example the optimal opportunity for a trading system with the following variables would be:

Float = \$25,000

Average Days In Trade = 19

Average Trade Size = \$3,500

Opportunity =  $(240 / 19) * (20,000 / 3,500) = 72$  trades per year.

### *Annual Profitability Return*

Lastly, with the statistics we've now covered, we can calculate the annual profitability return of your trading system. The profitability of a trading system is the combination of the expectancy and opportunity.

Now, it's simply a matter of plugging in the values you have already calculated into the formula below:

Annual Profitability Return = Expectancy \* Opportunity \* Percentage Risk Per Trade<sup>1</sup>.

For example, if a system with an expectancy of .75 had an opportunity of 72 trades per year and we risked a maximum of 2% per trade, the annual profitability return would be calculated as follows:

Annual Profitability Return = .60 \* 72 \* 2% = 86.4% p.a.

1. Percentage Risk Per Trade Defined In [Trading Secrets Revealed](#)

Can you see the power within these statistics? Statistics really is a topic worthy of a complete course itself. They really do provide tremendous insight into a trading system.

If you found this topic interesting and would like to further expand your understanding of this topic. You may be interested in looking further into Dr. Van Tharps work. In fact, he has a fantastic course that covers these topics, and many others, critical to the understanding of system design.

Tharp's course is called [Developing a Winning Trading/Investing System That Fits You](#), and I have found it invaluable. Although it's not critical, you can purchase your copy online by [clicking here](#).

**Let's make you a market wizard.**

### **MUST DO ACTION STEPS:**

1. [Click Here](#) to purchase a copy of Van Tharp's "[Developing a Winning Trading/Investing System That Fits You](#)." Your goal from this program is to understand how to evaluate a trading system using statistics.

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**Have you completed lesson 10's action steps?**

**If not, complete those steps before reading on.**

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*"The reason brokers are called "brokers" is because they are broker than you are."  
- Robert Kiyosaki's Rich Dad*

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## Lesson 11

### Selecting Your Broker

At this point you should have a fully tested system ready to trade. The last piece in the puzzle is to select your broker. Most markets require that all traders must place their trades through a broker. Fortunately this choice is easy... there really are only 2 types of brokers: the full service broker and the discount broker.

A full service broker offers advice to their clients for which a premium is charged. Given previous discussions on the importance of decision-making, you should recognize this service as being unnecessary. If you are following your trading system, such advice will only serve to confuse your decision-making processes.

Then there is discount brokers... these firms allow you to make all the decisions about how to trade your account. You only need to call, place an order and the firm will execute it. Discount brokers' do not offer advice to their clients; hence there is no need for them to employ research staff. This reduces their overheads and makes it possible to offer discounted rates.

#### How do you spot a "good" broker?

First off, the key word is "good." In this case, it means good for you, your trading style, your personality, and your needs. I recommend that my clients open an account with an online discount broker. That said, the brokers you will ultimately choose will vary depending on where you live and what market you decide to trade in.

Here are some questions you should consider when choosing your broker:

#### *1. What are the real commission rates?*

Advertised rates for companies vary between \$0 to \$40 per trade; the average rate is around \$20. However, look closely at what the company's advertised rate really applies to. In the majority of cases there will be higher brokerage for limit orders, options and those using a 'live' broker on the phone. You may find that the advertised commission rate may hardly ever apply to the types of trade you do.

## *2. Are there any extra fees?*

Many companies charge extra 'hidden' fees which can add significant costs to each trade. Charges to be aware of include those for transferring funds (both in and out of your account), insurance, administration charges, late payment penalties and more. You really need to look at the company's fine print or e-mail them for more details.

## *3. Can you trade multiple markets, and are the commissions the same?*

As your trading progresses, and you decide to experiment with new markets, it's easier to stick with the broker you have come to know and trust. Therefore, you really should plan ahead and choose a broker than can service your needs as you grow.

## *4. Does it cost extra to make a trade by phone?*

In addition to other charges most firms have higher rates if you want to place a trade over the phone, using a 'live' broker. You may be forced to use this if their connection is unreliable, so be sure to chose wisely.

## *5. Will they pay you interest on the balance of uninvested cash in your account?*

Some pay in the range of 3-4%. A nice little bonus!

## *6. Do you need to start with a large deposit?*

Beware high minimum balances required to open an account. While some companies have good rates, you may need \$10,000 to start. It's a lot of money to 'punt' on a company you haven't tried before.

## *7. How reliable is service?*

Speed and reliability of online trading is a major problem. I know of one client with a major online discount broker who watched as his account dropped by \$50,000 because a system fault at their end meant he couldn't log on for a whole morning! You must know about the quality of service of the broker before you start - speed and reliability of access, their software, and so on or it will cost you money at some point.

If you're still not sure where to start when choosing a broker, I have setup a search engine designed specifically to help you find one.



[Click Here to go to Broker Search](#) - The Worlds 1<sup>st</sup> Broker Search Engine.

Here's how it works, simply enter "discount broker" followed by your market and then click search. For example, for a commodities broker enter "*discount broker commodities*" and then click search.

Once the results come up, **select from the best brokers worldwide.** It's that easy!

You may have to do some research here, but once you have found an appropriate broker, open an account and then you can start trading.

**In the space below write down which broker you will use:**

**Let's get your broker right.**

**MUST DO ACTION STEPS:**

1. Find and open an account with an online discount broker. [Click Here](#) to visit [Broker Search](#).
2. Begin trading your newly designed system and remember to follow it flawlessly.

---

**Have you completed lesson 11's action steps?**

**If not, complete those steps before reading on.**

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"What feels good is often the wrong thing to do." - William Eckhardt

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## Lesson 12

### You've Got a Great Trading System... So Why Are You Losing?

**Please Note:**

This chapter has been submitted by Norman Hallett, Former Trader and CTA President Subconscious Training Corp. For more information on Norman & his products, please [Click Here](#).

You've done your homework.

Countless hours of seeking out the right guru (or piecing together your own system). Weeks of monitoring your guru's daily trade picks (or paper-trading and back-testing your homemade system). You've done it by the book.

No seat of the pants trading for you!

OK, now you're confident. It's time to put your money where your homework is.

You've had your coffee and your first trade signal is before you.

Confidence high. Trade made. First loss. Not a problem.

You understood before you started that successful traders both win and lose and "losing is part of the overall winning". You've also heard more than once that "successful traders don't win on every trade."

Moving on, still confident. Next trade made. Another loss, but...

This one hurt your pride a little because you got stopped out early in the trade, and then the market rebounded and would have hit your profit target if you weren't stopped out.

You double check.

Yep, you placed the stop where your trading system told you to place it.

You kind of had a feeling that the early weakness in the market was just profit-taking from the previous day's trading, but you're trading a system and you must stick to it. Wounded, but resilient.

After a good night's sleep and a few mouse clicks, your new daily trades are in front of you.

Hey, this one looks good! It's a little bit more risk than yesterday's trades had, but look at that profit potential!

With a smiling face, the trade is executed. With a nice start to the trade, you're feeling good and you've moved your stop to breakeven, just like your system said.

Surprise piece of news! Market reverses - blows through your stop - an "unexpected" loss.

*Is something wrong with the system?*

Has the overall market "personality" changed, affecting your system to the core, rendering all your back-testing irrelevant?

Your confidence turns to doubt.

You decide to "watch" the next trade... I mean, isn't it wise to make sure the system gets back on track before you "throw good money after bad?"

Isn't that what a conservative trader does?

Trade watched. It wins!

In your head, you beat yourself up a little because you know that when you started your "live" trading, you made an agreement with yourself to take the first 10 trades "no matter what" ... and here you wimped-out and missed a big winner that would have gotten you even.

What's happening?!!

What's happening is that you are out of control. Your emotions are ruling your trading.

The above scenario plays out in every trader from time to time... newbie and veteran alike.

The winning trader senses what is happening and nips it in the bud. The winning trader spend time EVERY DAY, working on “the discipline of trading”.

He/she reads a chapter in his/her favorite psychological trading book, scans the “ten commandments of trading” that hangs on the wall over his/her desk, listens to his/her mental training software for traders...

Something... Every Day... before trading begins.

There are many more losing traders than winning traders... and it's seldom about the trading system.

In my career, I've come across at least 50 systems that I consider A+, yet I know for a fact that MOST traders that have traded these systems have lost. Why? They were not in control of their emotions. Are you?

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### Chapter Addition By David Jenyns

The astute reader may have noticed this ebook has now gone full circle. We began with “you and your mindset” and now we're going to finish with you and your mindset.

The reason for ending on “you and your mindset” this is simple, to fully master your trading, you must master your emotions. For many, this is a battle they will never win... or so I thought. In fact, I used to be of the belief that you were either born a trader or you weren't. In my journey to make the most difficult trading procedures simple, I discovered I was wrong.

It was Jake Bernstein, and his work on mental training for traders, that help me see the errors in my thinking. Now I'm a little skeptical when it comes to this area of trading because never before have I seen a mental training executed to my liking.

Thanks to some of my clients who got me interested enough, I began to dig a little deeper into Jake Bernstein's TradingMind Software.

What I have found is that Bernstien has created something so exclusive it is a must-have for anybody who wants to maximize their trading potential. His work truly is ground breaking and, best of all, it's simple!

All you have to do is pop his software on and let the software do the rest. The only click you'll have to make is choosing the mental training session you'd like to run.

Then sit back and relax. That's it!

**Here's just a few of the areas his training works on:**

- ✓ Gain the strength to take your losses without wavering
- ✓ Eliminate fear, doubt and hesitation
- ✓ Avoid the dangers of over-confidence
- ✓ Develop a winning mindset based on the mental/emotional rules of a winning trader
- ✓ Eliminate the emotions that can sabotage your success
- ✓ Reverse bad habits and replace them with good ones
- ✓ Live in the reality of your system and level your emotions
- ✓ Establish clear, specific, time-based goals - then reach them!
- ✓ Learn to maintain discipline
- ✓ Reduce the stress associated with trading gains and losses
- ✓ Visualize Success like a champion trader!
- ✓ Travel your chosen path with confidence!

When all is said and done, I hate to say it, but even after following the Ultimate Trading Systems up to this point, some people still don't make it to the top 1% of traders who are successful in the market. Why? Because they haven't mastered the most important aspect of trading... themselves.

Be one of the rare few who make it using Jake Bernstein's TradingMind Software. Purchase it online by [clicking here](#).

**Let's make you a market wizard.**

**MUST DO ACTION STEPS:**

1. [Click Here](#) to purchase a copy of Jake Bernstein's "[TradingMind Software](#)." Your goal from this program is to reshape your mind and gain control over your trading like never before. This is the secret many traders never get.

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**Have you completed lesson 12's action steps?**

**If not, complete those steps before reading on.**

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*"Win or lose, everybody gets what they want out of the market. Some people seem to like to lose, so they win by losing money". -Ed Seykota*

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## Lesson 13

### Where to from Here?

Congratulations! Most people never see this page because they gave up somewhere on lesson 2 or 3. You are the exception. However, this is not the end. This is, as they say, "only the beginning!"

It is my goal throughout this book to give you the required steps to develop your own trading system. Armed with this knowledge you should be able to find your style and develop your system around that.

Nobody is born with killer trading skills. However, if you have passion, commitment, and the right education, you can become a great trader. Trading is not a get rich quick philosophy. It is a profession that, when mastered correctly, will profit. Seeking the proper instruction, with practice, patience and commitment, you will master the skills needed to make a comfortable living.

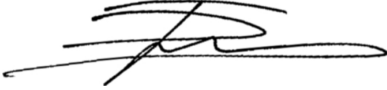
A statement made by legendary trader Ed Seykota, "Whatever you put your mind to, whatever you expect, be it positive or negative, you tend to draw into your life." Only you control your destiny as a trader. If you are to be a successful trader, you must have the expectation that you are going to be a successful trader.

When you get right down to it, making money trading should be a by-product of adhering to your trading system. It should not be your main objective as a trader; your energy is better spent concentrating on the execution of your trading system. A trader's job is to follow their trading system. If it has been thoroughly back tested and is proven to be profitable, a trader will get paid.

I will not wish you luck in your endeavors to become a successful trader, as luck has no place in trading. I do however hope that you recognize the importance of a trading system, because without one you are unlikely to consistently profit as a trader.

*Remember, If you think education is expensive, try ignorance.*

Your trading profits coach,

A handwritten signature in black ink, appearing to be 'David Jenyns', with a long horizontal stroke extending to the right.

David Jenyns - Dip Fin.  
Professional Trader, Author & Coach!

[Read About David Here](#)

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## Visit David's Websites Now:

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