

# Five Steps to Selecting Your Trader Type

## ***My Lifestyle Vision***

To spend about half my 'working' time trading and half swim coaching.

The time spend trading would be about 1-2 hrs a day directly trading with the rest being development of my trading skill, methods and strategies.

I expect to need 3 or 4 strategies to achieve my overall objectives, and here I'm thinking about just one of those strategies.

## ***Step #1 Choose your trading timeframe***

Swing trading

I plan generally once-a-day attention for actual trading, plus checking on positions another couple of times during the day.

So far, I've done higher time frame analysis on weekly charts and execution on daily, but I'm finding the opportunity too low for me. I'd like to try Daily / 4-hr combination, which means I need a way of trading on 4-hr charts without spending too much time during the day looking at charts.

## ***Step #2 Pick your trading method***

Break-out trader.

I'm drawn to visual patterns on charts, especially price testing key levels. I like it when a higher time frame trend is 'held up' by resistance level, for example. My mental model is of the higher time frame 'trend pressure' building until the lower time frame resistance is overcome allowing a good move to develop.

## ***Step #3 Fundamental vs. Technical***

Technical (for now)

I'm a visual thinker. I'm drawn to visual patterns, e.g. levels, narrow bands, etc. I don't get passionate about fundamentals and I haven't seen a way that can know enough for it to do more than extra complexity. I accept ignorance of fundamentals is a disadvantage, so I'm open to fundamental input that I can understand, e.g. Justin's explanation of how Real Money acts in the market makes sense to me. I have "The New Market Wizards" on order and will pay particular attention to Bill Lipschutz.

## ***Step #4 Mechanical vs. Discretionary***

Rules-based Discretionary

I need rules and defined processes. Without them I struggle to make effective decisions; I can always find a reason against what I should do. I understand well the need for the consistency that allows statistical analysis.

I have programming skills and enjoy automating aspects of trading, so perhaps I will one day automate a strategy as a way of trading shorter timeframes. I think I should automate the things that computers are good at (various execution tasks), but not what people are good at (judgement).

Given my desire to trade 4-hr charts, I may need to use some automation for the entry and/or early management of trades.

## ***Step #5 System Objectives***

I'm regarding this as one of several strategies I need trade. These are the objectives for this

## Five Steps to Selecting Your Trader Type

strategy.

Return: 2% / month 20% / year

Max. Drawdown: 2% into initial capital  
2% / month 10% / year

Chance of Max DD: 20%

Win Rate: 45%

R:R: 2:1 average 3:1 targeted

Average losing trade ~0.5 R

Average winning trade ~1.5 R

Opportunity: 10 / month

Max open trades: Probably ~4

I'm happy with about 6 open trades, but that's limited by my maximum open trade risk and correlation between pairs.

Check on stats:  $0.45 \times 1.5 - 0.65 \times 0.5 = 0.4$  (40% expectancy)

For 2% per month, with 10 trades per month, I need to risk 0.5%. About right.

### Summary

Swing, rules-based discretionary, technical, break-out trader.

Metrics for this strategy

Metric	Month	Year
Return	2%	30%
Drawdown (into initial capital)	3% (2%)	15% (2%)
Chance of DD	20%	20%
Win Rate	45%	45%
Reward / Risk	2:1	2:1
Opportunity	10	120
Max. Positions	6	6

### Beliefs

I believe...

- When price breaks through support or resistance it often moves far enough to extract a profit, i.e. for trade management to lock in profit.
- Break-outs are often followed by relatively large moves.
- I can know enough from the chart alone to trade profitably.
- I will need several strategies to achieve my overall trading performance objectives. (The objectives for this strategy contribute about 1/3 to my overall objectives.)

Other reasons for choosing these design metrics...

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- Break-out strategies fit my mental model of price 'pressure' being applied against resistances, where shorter-term traders are eventually overwhelmed by longer-term traders.
- I have a low tolerance to drawdown into my money, but I'm much more relaxed about risking market money, hence the small drawdown into initial capital with larger general drawdown limit.