Strategy Development

Working towards Consistent Gains

Steps Of Strategy Development

1- Goal

2- Plan

3- Initial Strategy Development

4- Execution of Strategy

5- Review of Results

6- Error Correction

7- Re-Deployment

8- Final Strategy

What’s the Goal?

- A strategy is a means to achieve a Goal/vision.
- So our first step is to define where our strategy will lead us.
- When I was asked this question at the very starting of my trading my answer was: I want to trade forex for a living(starting cap at the time: 1000 USD).

Now lets get to the core of how to set our Goal:

- First lets tweak the question a little:
  Whats the realistic Goal?
- This makes it easier to decide the factors/elements to consider in our decision making.
- The factors:
  a) Starting Capital
  b) Experience/Expertise Level
  c) Acceptable Risk
  d) Screen/Analysis Time
- Once we know all these, the Realistic Goal will be easily defined.

Assumption

- Going forward we will need to use the assumptions:
- Starting Capital: 10K(10,000 USD)
- Experience/Expertise Level: Beginner (6 months demo)
- Acceptable Risk: 1% per week
- Screen-Time available: 8-10 Hours a day.
- **GOAL: Monthly: 0-6%**

PLAN

- Goal: 0-6% per Month
- Now that we have our Goal its time to Plan.
- While this is counter-intuitive, I prefer to plan before going to strategy development.

“Plan your Trade, Trade your Plan” Wise Advice

- Making a plan is difficult and essential.
- Plans can be simple or complex, both work. The things to consider when planning:
- Is it suitable to our unique style of trading?
- Does it play to our strengths?
- Checks and balances for everyday application of plan.

  This topic can take up a lot of time. We will discuss in-depth in future webinars.

Why Demo’s help in Planning:

- Remember the aptitude test in High School?
- Demo’s are forex trading aptitude test. They help us to recognize our aptitude to various types of trading.
  Not so useful if we aren’t able to comprehend the results.
- I was very surprised by my aptitude test after high school, didn’t have a clue about how to comprehend the answers luckily the testing authority gave me the result in a few words. No such luck in trading.

Analyzing Demo Results:

Basic Analysis:

- Put all your trades in an excel sheet.

Clear the clutter:

- Remove all trades with no Stop-loss & Target.
- Put 3 reasons for each trade.
- Now, Remove all trades for which 3 reasons are not available.
- Remove any trades where initial Stop-Loss was greater than Target.

The above would be easier with a Trade journal.

Data to Intelligence

- We have data, now we must convert it to intelligence.
  The process is simple, ask a question and look to find the answer from the data:

- A few of the questions which I would ask:

  a) What is the type of market(trending, ranging, breakout..) in most of the profitable trades?

  Gives me my most successfully traded market.

  b) Was at any point in these trades the Position size so high that a Stop-loss hit would be 3% of starting capital?

  Gives me a check on whether I was gambling and got lucky.

  The above two questions help us find 1 strength and 1 potential weakness. There is a lot more we can learn about our strengths and weakness's from this data, just keep asking relevant questions.

What is the basis of a Strategy?

- Every strategy works.
- Will it work for you is a question which needs to be answered.
- A strategy needs to be based/tailored according to the traders strengths and weaknesses.
- If you agree with the above, we have our first task for Strategy Development: <u>Recognizing Strengths and Weaknesses.</u>

Strategy:

- We have the basis/controls of our strategy already:
  1- Max Loss: 1% per week
  2- Time-frame: 4H, Daily
  3- Only trade our strength: Market Type
- The above two will act as our basic filters.
- This is common for basic and intermediate strategies.

Step 1:

- Since we have identified the market type we want to trade. We need to find the right set of indicators which will inform us its time to <u>Start Looking for Trades</u>.
- Let us assume we are looking for trending pairs.
- For trending markets one of the simplest and effective indicators is Trendlines.

- Trendlines are an absolute basic. They are easy to use and once understood correctly can be applied to all pairs.
- Once a *valid* trendline is formed we can safely assume that the market is trending.
- A first strategy is like a first draft, just add the indicators you are familiar with and set the ground rules for the signal.
- I would add a couple of Moving Averages and an overbought/oversold(RSI being a favorite among most traders).

Step 2: Entry and Stop-Loss

- We have an Market type confirmation
- Setting up a trade signal:
  Entry: Set some rules. We can use a trendline break/cross/validation as entry.
- The Stop-loss for above is below Trendline resistance.
- Now we use our filter(1% max risk). If its above this risk level, the trade is passed upon or position size adjusted accordingly

Step 3: Exit

- A good strategy will always give you options. That’s what should define an Exit.
- 1- Exit a part of the position at such level that the rest of the position gets to break even if Stop-loss gets hit.
- 2- Exit at preset targets defined by number of pips etc.
- 3- Exit at sign of reversal.
- 4- Move stops as per charts and wait for Stop-loss to hit. (Not recommended)