



Warrior Trading

CHAPTER 11. TRADE MANAGEMENT & YOUR
PSYCHOLOGICAL GAME





Today you will Learn

- How to manage your open positions
- Techniques to handle fear of Loss



Why Is This Important?

- Trade Management is critical to success as a trader. If you consistently find good setups but sell too soon, you'll never be successful in the long term.

Holding Losers and Selling winners



Why do we do this?!?

This is a very common pattern among new traders. You have small winners, and big losers.

You hold the losers too long and sell the winners too soon.

How do we change this pattern!

Set Rules for Entries and Exits, and follow the Rules.



Appropriate Sizing

You must size according to a pre-determined level of risk. If you are willing to risk \$1k on a trade, you can either take 10k shares with a 10 cent stop or 2k shares with a 50 cent stop.

So you have to ask which stop is more realistic and is appropriate for the chart.

If you are suddenly down, you have to stick with the plan and sell.

I see so many students in the simulator over leveraging their accounts.



Taking the Trade

We have one of our Go To Setups developing and preparing for a breakout

We can set a reasonable stop with a 2:1 potential profit loss ratio.

We can take a $\frac{1}{2}$ size position leading up to the breakout with the intention of doubling as more volume comes in.

We take the trade, set the stop, and LET IT WORK



Scaling into Winners

On a winning trade that I have a ½ size or even full size position, if I'm confident the stock is about to breakout, or continue breaking out, I will add more size.

Add to Winners!

I adjust my stop to the low of the last 5min candle, possible the last 1min candle.

I want to add more shares but keep relatively the same amount of risk on the position.



Scaling into Breakouts

Often times as we are approaching a strong breakout, I will add a $\frac{1}{2}$ size position with the intention of doubling if the breakout occurs

I do this for 2 reasons

- Sometimes on the breakout I can't get filled
- I can have a larger position with better price average and confirmed breakout

Scaling out of winners Income Trading



As an Income Trader I want to produce income on all of my trades.

I don't want to go up \$1k and not lock it up. So I sell $\frac{1}{2}$ or $\frac{3}{4}$ of my position and adjust stop to breakeven and let the rest RIDE until I get stopped out.

We've discussed this extensively in the class, but this trade management strategy is based on the personal risk preferences I have. You can create your own trade management guidelines based on your risk tolerance.



Exit Indicators

There are a few universal exit indicators that work with pretty much every strategy. Its important to learn to recognize these and to bail out if you see these exit indictors.



Follow the Trend

I buy stocks that are TRENDING. I don't buy during consolidation patterns.

We buy Breakouts. Therefore, we MUST see the trend continue. A 5min candle making a new low indicates trend may be reversing.

Occasionally I will hold to the low of the Bull Flag, but only if I already have profit on the trade and have scaled down to a $\frac{1}{4}$ position or less.

5min Candle makes new low





Extension Bars

Extension Bars are extremely large candles, they are Spikes! They are typically going to be 25 cent candles at a min, and as large as 1 or 2 dollars.

We have to sell into this spikes because we are getting too over extended.



Extension Bar Example



Where did the Volume Go?

If we see Volume Declining, that's my exit signal!

I don't want to hold through low volume consolidation.

The strong volume is what CONFIRMS the breakout is happening.





Trailing Stops

A trailing stop allows you to hold a position while booking profits. You continue to hold a core position until you see an exit indicator.

I'll begin to use trailing stops but only once my stop has been adjusted ABOVE breakeven. If my stop is still breakeven I wouldn't set a stop lower than that.

Once I'm setting profit stops, I simply set a stop at the low of the last 5min candle and keep adjusting it every time a new 5min candle closes.

This is how I trail my winners up.



Trailing Stop Example





Scaling out Losers

If I am in a Breakout Trade with a full size position and it seems the trade may not be working as planned, I may sell half, for a small loss or a small profit, simply to reduce my EXPOSURE. I'd rather take a loss on a ½ size position than a full size position.

Back to the Breakout of Bailout mentality



Day Trading Psychology

The biggest obstacle to trading success for most traders are **emotions**

It is extremely difficult to become comfortable experiencing losses.

Think of a home builder, and every 3 weeks somebody comes along and knocks down half the house.

You have to get used to getting knocked down and rebuilding.

Trade Management & Your Emotional Game



Learn to be okay with being wrong.

Trade Management is very much combined with Risk Management

We often change our risk parameters mid-trade to accommodate a losing position

That is a BAD HABIT





Getting Knocked Down

Successful traders have learned how to recover from getting knocked down without losing composure

Losing Money is part of the job for us.

Every day we must achieve peak performance and maintain a clear state of mind so we can trade out of losses without losing control.



Market Psychology

The Winners Walk away

The Losers Keep Fighting it Out

Trading 9:30-11am is the easiest time to make money.

Trading out of frustration to make back losses is a recipe for disaster.

Many of the afternoon traders are aggressively trying to make back morning losses.

When is my best trading?



My best trading is from 9:30am-10am.

If I haven't performed well during this time frame, odds are, the next time I will perform well will be tomorrow.

I can't force aggressive trading outside my peak performance window.

This means you have to know your stats.





Building a Cushion

I try to get a solid winner on my first or second trades of the day. I want to build my daily cushion as quickly as possible to get myself green on the day.

Knowing when to walk away

Trading in the morning is always easiest, so if I can't get a winner in the morning my odds of getting wins mid-day or afternoon decrease exponentially.

Sometimes the best chance to get the next win is tomorrow morning!



Trying to Bounce Back

When we take a few losses the natural instinct is trying to recover those losses quickly.

This instinct is actually very dangerous. We cannot force the market or force trades. We must wait for trade so come to us.

Whether we are red or green for the week/month, we should trade the same strategy.

We may increase risk while we are trading well, but not when we are trading poorly.

When do you get Aggressive?



I found I used to get extremely aggressive any day that I hit my daily goal, then lost it and went red on the day.

I would spend the rest of the day grasping at straws, taking trades on anything moving. Often times these days would end very badly for me as I kept losing and kept getting more frustrated.

Learn to become familiar with your triggers and your trading patterns.



Risk of Overtrading

Over Trading can be extremely risky.

Most traders that are extreme over traders are unable to achieve success.

You must take strictly calculated trades and this typically results in only a few trades each day, rarely more than 20.



Discipline is a Practice

Discipline is a practice and it's something you have to always work on.

You don't achieve a level of discipline and then you can stop working on it.

Everyday you have to exercise your ability to maintain composure.



How to improve discipline?



I have a few methods for improving my ability to maintain focus and discipline throughout the day.

1. Mediation. I mediate every morning before the market opens. This practice by itself requires discipline to maintain.
2. Exercise. Again, it requires discipline to maintain a workout regimen.

Practicing discipline in other areas of your life will improve your ability to maintain composure as a trader.



Making RULES

As a trader I have repeatedly put myself into Trader Rehab. I typically do this after a particularly embarrassing and unacceptable loss. It's a time to go back to basics. Refocus on the core strategy. For me, trader rehab usually means I only trade for the first 2hrs, and I limit my position size.

If I break rules, I have to run 5 miles for each rule I break. I would rather just not break rules vs have to run. But you have to be able to hold yourself to the rules if you make them!



Managing Risk

Everything we've talked about today is based on the topics of managing your trades, and specifically, managing risk. We know there is risk in trading, and sometimes the most difficult obstacle to successful trading are our own emotions.

Managing risk and managing emotions go hand in hand.





Extras & Links

Email me with questions ross@warriortrading.com