Building a Sustainable Trading Business

Table of Contents

INTRODUCTION

By the end of this manual, it's our aim to have guided you through the process **of building a sustainable business** out of trading. I reiterate the term 'business' because that's what it is. The aim is to be **profitable**. Like any business, there are no shortcuts to success. It requires **skill**, **focus** and **sound management**. It requires **dedication** and **enthusiasm**. There is an element of risk as in any business, but managed correctly, **risks can be mitigated**. The business of trading can be both **financially,** as well as **emotionally rewarding**.

This manual has some technical elements to it. Trading has a language and flow that will require some patience and practice. We hope that by the end of this little read, we can take some of the discomfort of the jargon away and replace it with an ease of understanding the basics. Trading, as with most things in life, remains a dynamic learning process. Developing good habits from the start makes it easier to settle into a flow.

I want to start by telling the story of two imaginary entrepreneurs in the hope that this analogy remains in your mind as we remind you throughout the manual of how similar your trading journey is to the daily life of many business owners.

RED SHOES, GREEN SHOES

SO…. You’re tired of working for the boss, or you’re retired with some cash. Or perhaps you just want to start a side hustle that you can build up to a point where it’s bringing in enough income that you can live on, and even make you wealthy in the long run.

Let’s look at a simple business model of selling shoes. Imagine the following scenario:

You live in Fickletown. All that people buy are shoes. Red shoes and Green shoes. And they’re fickle. Sometimes they like Red shoes, sometimes they like Green shoes. Every morning at about the same time, people come down the main street, passing all the shoe shops. The crowd is sometimes big, sometimes small, and some days they need shoes, and some days they don’t. Some days they like Red shoes, and some days Green shoes. In fact, their taste in the same shoe color can sometimes last 5 minutes, sometimes a couple of hours, even days or weeks.

Let’s be practical now and look at the basics of opening a shoe shop:

- CAPITAL - The shop owner needs capital. Cash and Credit to buy shoes to sell.
- RENT – A place to sell his shoes
- MARKET KNOWLEDGE – An ability to forecast how long each color shoes are going to be in fashion. If the trend changes, you may have to sell your shoes at a loss that will eat up the profits of the shoes already sold.
- RISK MANAGEMENT – A plan to mitigate mistakes in shoe color and the amount of stock held. Part of that plan is to keep enough capital aside to ride out mistakes like these without going bankrupt.
- BUSINESS PLAN and MONITORING – A roadmap to consult from time to time to see whether you are making enough profit so that you can take some home to buy food and that new car you’ve been eying. There’s no point in working everyday if all your profit just goes to rent and other expenses.

The only way to sell shoes in Fickletown is to open a Franchise. There are two available: McSharkyShoos and McSharpShoes.

McSharkyShoos has a great marketing campaign Their offices have bright Red and Green lights in the shape of shoes that flash all night and all day. They advertise on Social Media and they have billboards all over town. They promise low prices and high profit margins. They will rent you a store at amazing rates. They promise to make you a millionaire overnight. The really seem to know about shoes. McSharkyShoos keep your money in an old wooden cash register, and there are rumours that Old Man McSharky likes expensive island holidays.

McSharpyShoes on the other hand, have operated for years, and their franchisees have learnt about them through word of mouth. They have a solid reputation in the market. Their shoes are a little more expensive and profit margins are a little smaller, but in return they have experts watching the trend of Green and Red shoes and advisors that will help make your choices of shoe color, stock sizes and how long each color shoe will trend for. They offer training on how to anticipate the fickleness of the shoe buyers, how long you should sell a particular colour of shoes, and when to swop out to another color. They watch social media for trends and teach you how to do the same. They are known to support you until such time that you can stand on your own feet as you build up your own knowledge base. McSharkyShoes keeps your money in a third-party bank account which, in terms of local regulations, he cannot touch.

THE FIRST SHOP OWNER

Our first guy, let's call him John Shoddy has been seeing McSharkyShoos adverts everywhere, the flashing neon signs, and the promise of becoming rich overnight. He contacts them about opening his own shoe store. While he wanted to take the time to look over their proposal, the sales guy at McSharkyShoos called him almost every hour until he signed up with them.

Before he knew it, he had a shop set up on High street, salivating about the big profits he was bound to make. The only expenses he had was a small delivery fee every time he ordered new shoes from McSharkyShoos.

It was morning, and he was waiting for the crowds of people that were bound to come walking by. He just wasn't sure which colour shoes to sell, so he decided he would watch the crowd as they walked by to see if he could figure out what colour was in fashion for that day.

Soon enough, people started to trickle by. He was afraid to buy stock at first. There were so many uncertainties, and he had put his entire savings down with McSharky so that he could order shoes.

As the people walked by, from behind his counter and through the narrow window to the street, he started counting people who were wearing Red shoes and Green shoes. It became quite clear that Red shoes were in, so he made the call and ordered some Red Shoes to put on display for sale.

In no time, his stock was on the shelves, he switched on his flashing "OPEN" sign and people started to come in. At first, he sold Red Shoes like hot cakes. He made a lot of profit quickly and closed shop the moment a customer said that they would only buy the Red Shoes if they were on sale.

He took his windfall and rushed out the shop and up the street towards home. As he moved up the street, he noticed that even though a customer had asked for a discount because she didn't like the Red Shoes, there were suddenly a lot of people with Red shoes again. He cursed silently because he thought he should have stayed open a little longer because he made a rash decision to close up just because of one unhappy customer. He promised he would do better the following day.

The following day, as soon as people started to move past his window, it became clear that Green was in. He moved quickly stocking up on Green Shoes and opened his doors. At first, he had a bunch of happy customers, and profits started to build quickly. He had bought more stock that day in anticipation of making much more profit. The trend was short lived. Soon people were complaining about the shoes and he had to drastically reduce the price on the shoes to below cost price just to sell them. Remembering the experience of the day before, he was sure it would change again and later that day he could raise his prices again and make back his losses.

But it never happened. The longer he waited, the more losses accumulated, but he kept the shop open, sure that things would change again in his favour. By the end of the day, when he finally closed, he had lost a lot of money. He realized that his losses were so great that it had taken a very large portion of his savings. He went home to face his wife with the bad news.

The next day, disillusioned, he went to the shiny offices of McSharkyShoos to tell them he no longer wanted to sell shoes and that he needed what little was left of his savings. The lady behind the desk told him that Old Man McSharky was away on an expensive holiday in Vegas and that he was the only one who could open the cash register to return his money, and that she would call him as soon as he returned. These terms were in the contract that he signed, she reminded him.

A few days later, he read that McSharkyShoos had closed because the Old Man had spent all of his customers' money in Vegas. His savings were gone.

THE SECOND SHOP OWNER

Our second guy, we'll call him John Smart (for reasons I'm sure you already know), had been wanting to sell shoes for some time. He too had seen the McSharkyShoos ads about big profits quickly. However, he had been researching suppliers for a year and it was clear that McSharky wasn't' even a legal supplier. He used contracts that were illegal in the Shoe Selling Association, of which he wasn't even a member.

He booked an appointment with Mc SharpyShoes for several reasons. The most important was that they were a member of the Shoe Selling Association. This meant that he was protected from illegal clauses in his contracts and his savings were safe because they were obliged to keep them separate from their own accounts.

Their delivery fees were higher, but as part of their service, as a new shoe seller, they would place experienced market researchers up the street to monitor trends. This would help make a better decision on which shoes to stock, how many to stock, and for how long it was worth keeping the shop open. If they saw that there was no clear trend, or the crowds were just too small, they would send a text to him letting him know. They also watched social media accounts to see what influencers were saying about the colour of shoes that day as that often made a big difference on the fashion for the day.

Every day after he closed, he sat down with his ledger and compared his sales and profits with targets that he had set for himself.

Soon, instead of sitting behind the counter the whole day, he hired a cashier and he stood in the street. It was a great place to see up the high street at the crowds of shoppers. It became easier for him to see the trends before they changed. He became less fearful of those flash sales he sometimes had to do because he had already seen that the trend would change back to the colour of his stock by standing in the street and reading the texts from the researchers. He knew that sometimes, even with all this information, he would make mistakes. To mitigate these occasional losses, he had a clear policy on how much he was prepared to lose before closing the shop and calling it a day.

John Smart operated conservatively, never used more than a certain fraction of the money in his bank to buy stock, carefully watched trends, and listened diligently to the researchers. In no time at all, he upgraded the size of his shop to make way for the ever-increasing stock he needed daily. His turnover gradually increased through a careful financial strategy and his willingness to keep learning about the shoe market. He followed influencers on social media to take advantage of sudden trend changes in fashion colour.

The last I heard; he was the biggest shoe seller in Fickletown.

YOUR BUSINESS AS A TRADER

INTRODUCTION

We are going to use the lessons learnt from the two shoe sellers to show you how to become the biggest shoe seller in Fickletown.

Look out for the similarities.

To have a **profitable** and **sustainable** trading business you must have the following:

CAPITAL

SKILLS

MARKET KNOWLEDGE

TOOLS

STRATEGY

RISK MANAGEMENT

TARGETS AND GOALS

DISCIPLINE

ENTHUSIASM

SUPPORT

You will find all of these elements in the pages that follow.

TRADING JARGON

The trading world is filled with jargon. You need to have some knowledge of the jargon, mainly so that you don't have a blank look when asking for advice. No seriously, the jargon is important when we discuss managing your risk later.

Technical Trading vs Fundamental Trading

Technical Trading is based on mathematics. Your trading strategy is based solely on **indicators** which you have set up to identify market trends.

You effectively build a mathematical model which statistically can indicate a buying signal based on historical market movements.

We'll be exploring some tools you could use including Candle Sequences, Moving Averages, MACD and Fibonacci Levels. There are many more tools available, and traders differ on their preferences based on their own experiences.

In our Fickletown example, these were the researchers that sent texts to the shop owner that were watching the trends up the street where he couldn't see. **They gave him strong and reliable clues** on his choice of shoes for the day. Without them, his view out of the shop would be narrow and his decisions would have been tantamount to random guesses.

Technical trading can be described as **objective**, in that you would set up rules for determining the size of your trade, for entering a trade, and rules to exit, and then stick diligently to your rules.

Fundamental Trading can be compared to the social media influencers in our story.

Fundamental Traders look for **intrinsic value** through research of stock shares or a commodity and consider how a stock / forex pair / or index may be affected by certain types of financial data that is regularly released by governments every day around the world.

For example, a fundamental trader could decide on a transaction in gold or copper commodities based on war breaking out in a certain territory. They would also decide based on unemployment numbers or interest rate changes when trading forex pairs or indexes.

Market types

We must understand the importance of knowing the different markets. Fickletown is unique. It has a certain demographic and unique spending patterns. Trends change swiftly. In other towns, the buyers are different. Green shoes may sell way more often than red shoes, so you may just want to specialize in Green shoes, and you may choose to not even open your shop on days when red shoes are selling.

The markets we operate in are listed below. Each market has its own unique characteristics and so should be approached differently. You can choose to diversify across several markets or learn to specialize in one.

FOREX MARKETS are generally less volatile but are more highly leveraged with smaller spreads. We'll explain those later, but this essentially means that a very small movement in the price of a forex pair can make a big profit (but also a big loss). Common forex pairs traded are the USDCAD (US Dollar against the Canadian Dollar); EURUSD (Euro against the US Dollar); GBPUSD (British Pound against the US Dollar and also sometimes referred to as "Cable")

INDEX MARKET trading is defined as the buying and selling of a specific stock market index. Investors will speculate on the price of an index rising or falling which then determines whether they will be buying or selling. Since an index represents the performance of a group of stocks, you will not be buying any actual underlying stock, but rather buying the average performance of the group of stocks. When the price of shares for the companies within an index go up, the value of the index increases. If the price instead falls, the value of the index will drop.

An index is a way to measure the performance of a group of assets, in this case a list of publicly traded companies and their stock prices.

One of the top performing and most widely known indices in the world is the Dow Jones. The Dow Jones Industrial Average (DJIA) tracks the overall performance of the 30 largest companies in the US. If the average price of the 30 companies goes up, the DJIA climbs higher as well. If the average price of the 30 companies drops lower, the DJIA will decline too.

When you trade indices online, there are two main types: index cash CFDs and index futures CFDs. The main difference between the 'cash' market and 'futures' market is that the 'cash' does not have an expiry date. The 'futures' market, however, has an expiry date, normally known as a 'rollover'. A futures contract is effectively an agreement between the buyer and the seller on the price that must be paid by the buyer at a given future date.

SHARE TRADING is when you use CFD's to predict price movement on a particular share. Share Traders generally use a combination of Fundamental and Technical strategies. Share trading is a highly specialised niche of trading. You're not trading the actual share, but rather speculating on which way the share will move.

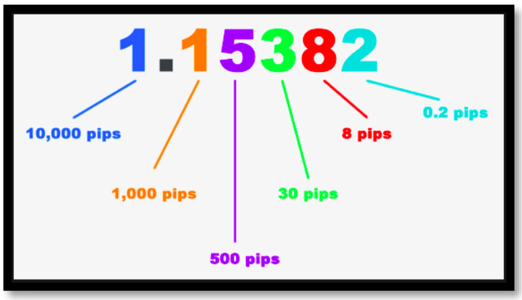
Leverage, Pips, Margins and Spread

LEVERAGE involves borrowing a certain amount of the money needed to invest in something bigger. In the case of trading the markets above, money is usually borrowed from a broker. Trading does offer high leverage in the sense that for an initial margin requirement, a trader can build up—and control—a huge amount of money.

If that sounds a bit technical, the examples below explain the essence of what you need to understand.

LEVERAGE ON INDEX TRADES - This first example is an Index trade. If I open a trade using a lot size of USD 1.00 (highlighted in the graphic), each point of price change will increase my profit (or loss) by USD 1.00. In this example, if the price moves from 35,311.0 to 35,312.0 my effective profit (or loss) is USD 1.00. Bear in mind that Index prices and Share prices are expressed in cents. So in this case a price change of 1 US cent, will result in a profit of USD1.00. **If the price changes by USD1.00 (100 points), my profit is USD 10.00.**

LEVERAGE ON FOREX TRADES - Let's look at a common forex pair because they work differently. The EURUSD (one Euro will buy you this many USD). Again, I will assume using a lot size of USD 1.00. For every movement of the price's fourth decimal number (1.17175) which is referred to as a **"pip"** in forex language, my profit (or loss) will be USD 1.00. **So effectively for a one cent movement – the second decimal place – (1.17175) of the forex pair, my profit would be USD 100.00.** That's leverage.



MARGINS can be best described as an amount that the broker will reserve of your equity to act as collateral for our leverage and maintain their liquidity level when executing trades on your behalf.

You will notice this in the **TRADE tab** in your terminal window when trading.

Order	Time	Type	Size	Symbol
12982729	2021.08.12 11:13:52	buy	0.11	.de30.a
12992575	2021.08.12 15:18:45	buy	0.13	.ustec.a

Balance: 87.68 ZAR Equity: 102.48 Margin: 18.49 Free margin: 83.99 Margin level: 554.27%

The **margin** that has been reserved out of my equity for the two trades I have open, is 18.49. I have a free margin of 83.99. The free margin is what I can use to open new trades if I want to. The free margin will increase as my trades increase into profit.

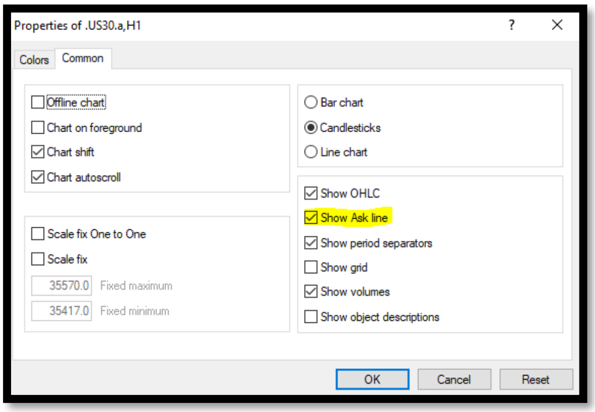
But the other side of this is that the free margin will DECREASE if my trades move into loss**.**

If your free margin moves to zero, the broker will automatically close your trades to protect the margin it has reserved from your equity. You can prevent this by depositing more money into your account before it gets close to zero, but if you manage your risk correctly, this should never drop anywhere near zero.

THE SPREAD is equivalent to what our shop owners were paying as delivery fees each time they ordered shoe stock to sell. It's the difference between the Bid and Ask prices.

It is the fee the broker charges for your transaction. The spread value differs from market to market (and from broker to broker but we'll get to that later) and is determined by many factors including the relative cost of hosting each market and that market's volatility. Spread on some markets, especially the index markets, may change during the day and is usually linked to the time that the markets are open.

If you right click on any market window you may have open, click properties and under the Common Tab select Show Ask Line. This is a good visual representation of the spread.



If you want to see a list of markets and spreads, push **CTRL+M** on MT4 and you will find them there.

Market Watch: 13:19:26

Symbol	Bid	Ask	!
.DE30.a	15979.3	15981.4	21
.US30.a	35552.1	35556.6	45
.USTEC.a	15068.9	15071.8	29
USDZAR.a	14.82830	14.83340	510
GBPZAR	20.50155	20.50635	480
.UK100.a	7217.5	7219.4	19
USDZAR	14.82830	14.83340	510
EURZAR	17.43795	17.44275	480

LONG / SHORT

You've all heard of the movie "The Big Short" right? The movie talks about how certain players in the US market anticipated the 2007 housing crash, and "shorted" the market by profiting off a falling price.

It's that jargon thing again.

When we anticipate the market **prices rising**, we will **"Go Long"** and **"Buy".**

When we anticipate the market **prices falling**, we will **"Go Short"** and **"Sell".**

As Index and Forex traders, **we're not technically buying or selling**. We're just taking a position based on whether the price is rising or falling and **profit off our correct prediction** of price action.

It's confused slightly by that button in MT4 (shown below) which asks you to make a choice between Buying and Selling when we really talk about going **Long and Short**.

Going LONG? Push the BUY button!

RED SHOES OR GREEN SHOES - YOUR TRADING PLAN

We're pretty much over the JARGON section and getting closer to the **nitty gritty stuff**. From here on in, we are going to be talking about the core of what a trader does.

Our shop owners had a continuous dilemma about which color shoes to sell for the day. The customers of Fickletown seemed to change their mind seemingly on a whim, but the shop owner who focused on intelligence gathered by the researchers in the street; managed his risk; set himself targets and goals; and wasn't distracted by greed or fear, was ultimately successful.

The essence of our business is much the same. We need to predict which way a market is going to move (The Price Change) and either go "Long" or "Short". **Profits** come when we can predict **When** the price will change, in **which direction** it's going to change, and by **how much** it's going to change.

We use **TOOLS** to create **strategies** to predict **price action.**

A **STRATEGY** is the way we use a **collection of tools** (commonly called **indicators**) which has been tested to **predict a price action** most accurately in a **certain direction** within a **set of rules**.

Some of the basic tools we are going to look at now are **Candles**, **Moving Averages** and **Fibonacci's.**

More complex strategies have been developed over many years, and there's tons of material available on the internet, but we believe that simpler is better. Our strategies are constantly tested and monitored for success rate.

All strategies work, but the market changes. That's why it is important to us that we keep statistics on each of our strategies, and as the market changes, they are tweaked and tested to maximize your success rate.

A strategy with a 70% hit rate is a good strategy.

When we combine our **strategies** with a **risk management** system, and our **goals**, we have a **TRADING PLAN.**

THE TOOLBOX

Price Action is measured in time periods and is graphically represented by **Candles and other indicators** on our charts. We use these indicators of Price Action to extrapolate trends.

TOOL EXAMPLE ONE: CANDLES

A 5-minute candle graphically shows how the market moved in 5 minutes. It shows at what price it started (the Opening Price), the price it ended (The Closing Price) and depicts the range in which it traded during the time period (The High and Low prices).

The concept of candlestick charting was developed by Munehisa Homma, a Japanese rice trader. During routine trading, Homma discovered that the rice market was influenced by the emotions of traders, while still acknowledging the effect of demand and supply on the price of rice.

Candle shapes and their sequence tell us a lot about what the market is doing and there have been reams and reams written about them over the years.

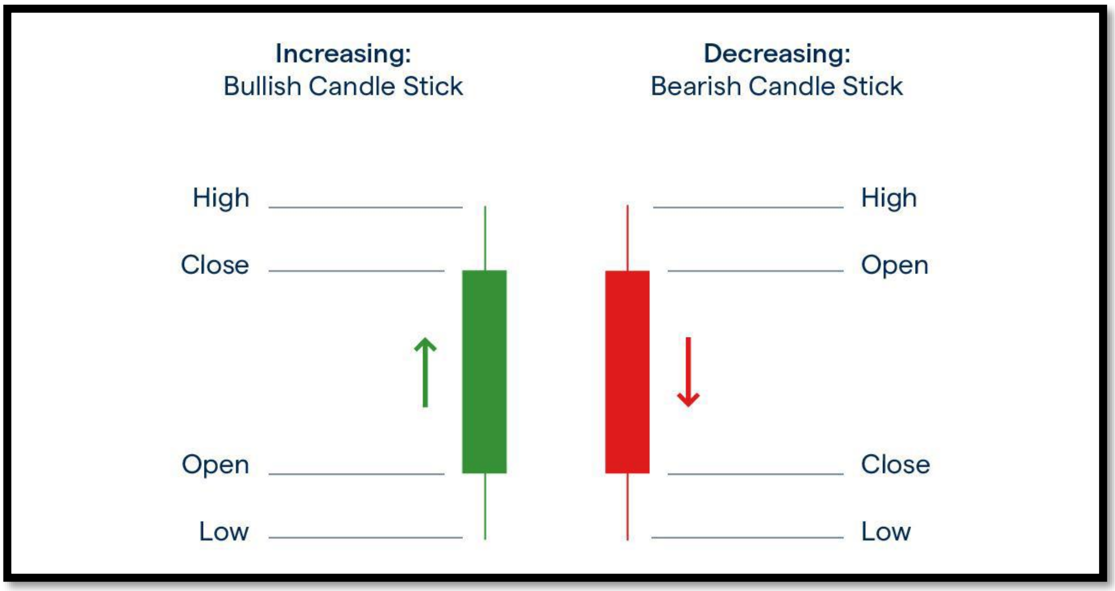
Let's see what the candle tells us about what happened during the timeframe the candle represents.

The below candle represents what the price of the Index / Forex Pair / Or Share for a period of one hour.

We'll talk about the image on the left, where the price increased during the period. When a price rises, it's called a "Bullish Candle". You can infer the opposite with the "Bearish Candle".

The body of the candle (The thick green bit) is the net increase in price over the period. It represents the difference between the **OPENING PRICE** (the price of the first transaction of the period) and the **CLOSING PRICE** (the price of the very last transaction during the period).

During the period, the price dropped below the opening price, and peaked above the eventual closing price before dropping down again. This price movement is represented by the "wicks" or the "tails" of the candle. Below, they are labelled as **"High" and "Low"**. It represents the full range of the price during the period.

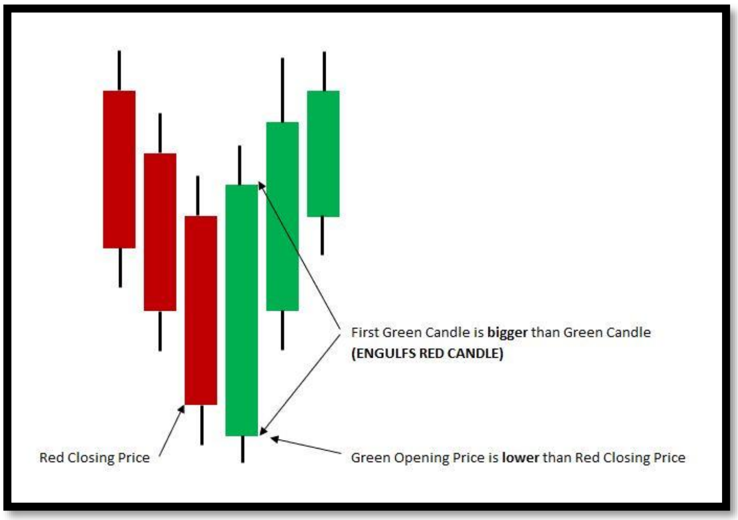


SOME COMMON CANDLE SHAPES AND PATTERNS WE OFTEN TALK ABOUT

ENGULFING CANDLES

This is best illustrated below. The **engulfing candle** formation is a strong indicator of **a trend reversal**. The most important two aspects in the below trend from short to long are firstly that the **Green Candle Opens LOWER than the Red Candle,** and secondly the new **Green Candle completely engulfs the preceding Red Candle.** You will usually find this candle at the end of a long trend, signifying a reversal in the other direction.

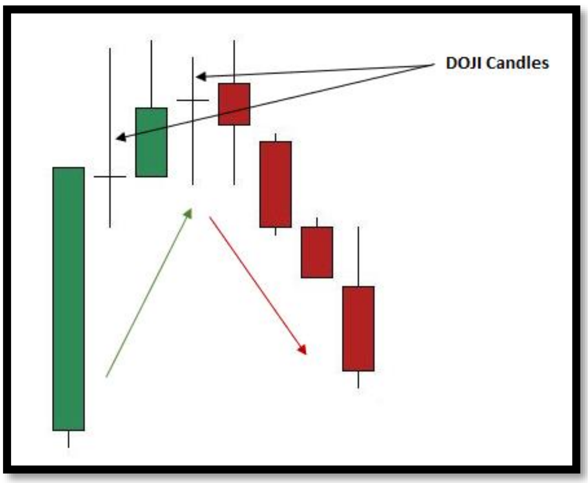
Of course, the converse from Long to short also applies.

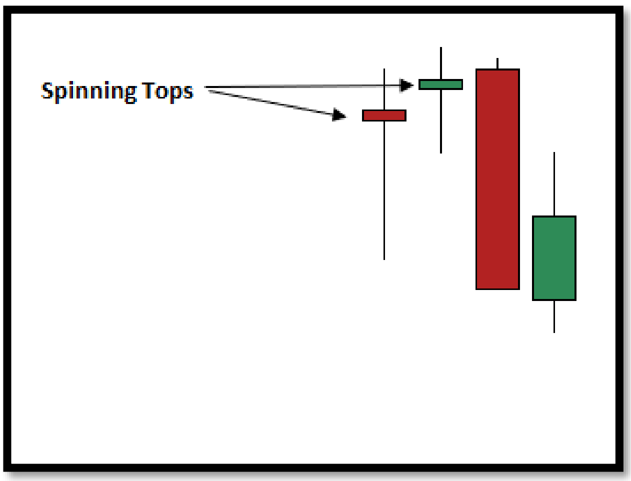


DOJI CANDLE and SPINNING TOPS

The **DOJI candle** forms where the candle opens at a certain price, moves up and down during the time period, and then **CLOSES AT THE SAME PRICE AS WHEN IT OPENED.**

A **SPINNING TOP** is like a Doji candle, except it does have a **small body** relative to the size of the candle. The Doji and Spinning Top Candles are candles of **indecision to continue in a direction**. It **does not indicate a change in trend** but can be **used as a confirmer** if other indicators are pointing towards a trend change.



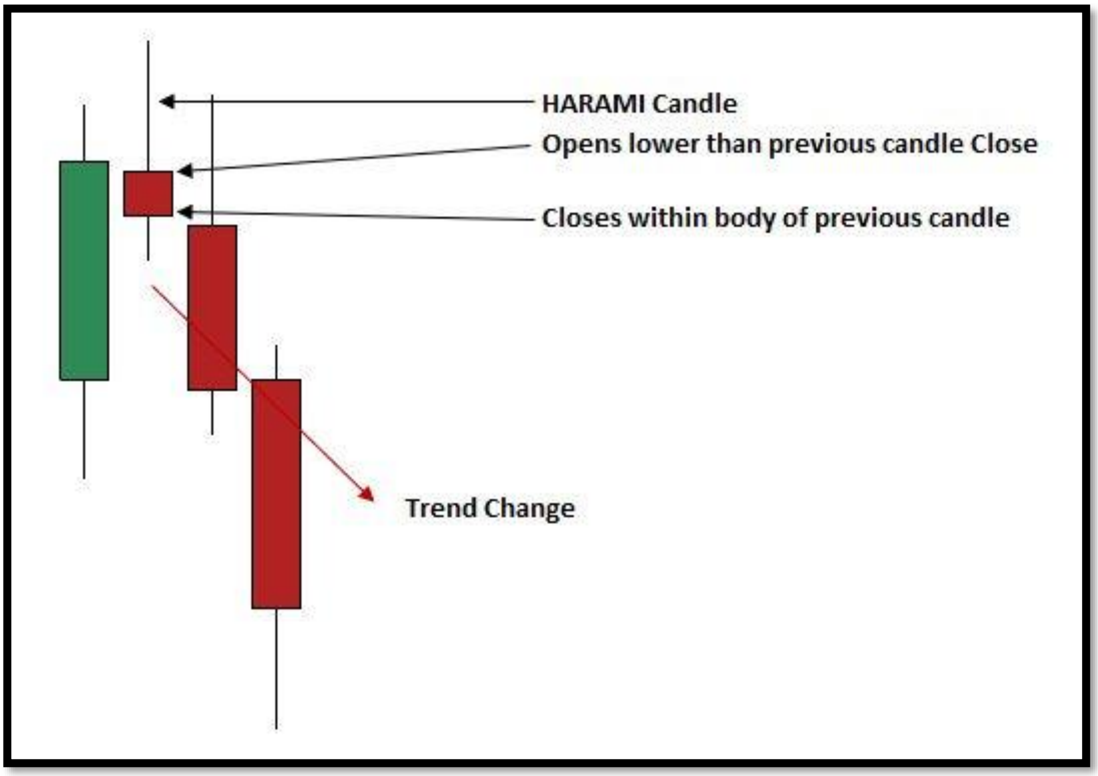


HARAMI CANDLES

The **Harami Candles** are in some way the opposite of the Engulfing candle but signify the same thing.

In the illustration below, the two important aspects are that the Red Harami Candle **opens below the previous** Green Candle, then **closes within the body** of the Green Candle.

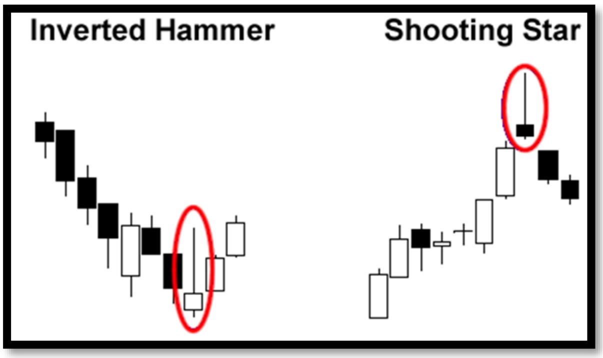
This illustrates a trend from Long to Short, but the **opposite is also applicable**.

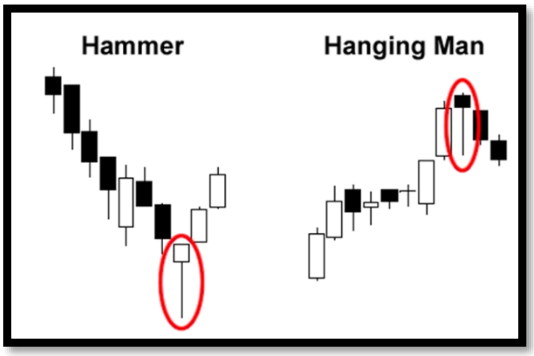


HAMMERS, SHOOTING STAR and HANGING MAN

All these formations can indicate a **change in trend.**

In all instances, three conditions must be met. Firstly, the **body of the candle must exist either above or below the previous candle**; it must have **one long wick** (the other wick may even be non-existent); and lastly, the actual **candle body must be less than 25% of the entire candle**. It can also be represented by a Doji Candle, where the open/close price is above or below the previous candle.



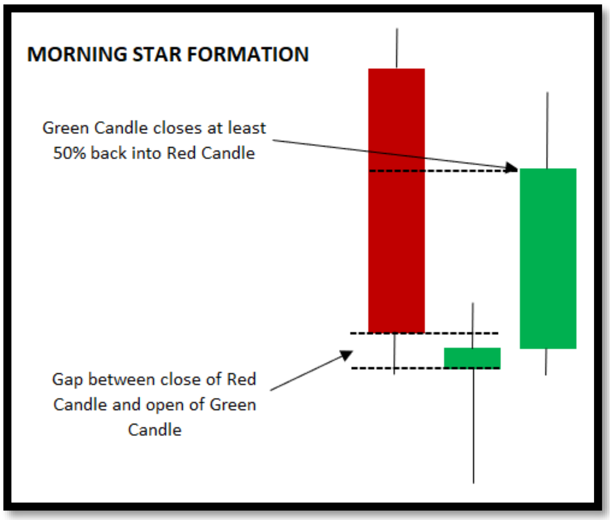


MORNING STARS AND EVENING STARS

Morning and Evening stars can manifest as both Spinning Tops and Dojis. They represent and change in direction and the also indicate strong support and resistance levels.

The formation consists of THREE CANDLES. We'll use the morning star as an example. The down trend red candle is strong and long, then the Doji or spinning top opens and closes below Red Candle. Lastly, the third Green Candle should close above at least 50% of the body of the first candle.

The illustration is for a Morning Star. The evening star is just the opposite.



A lot of this feels like jargon again, but it is important to at least know the terminology if it is mentioned in one of our Zoom sessions.

TOOL EXAMPLE TWO: MOVING AVERAGES

A **moving average** is a value that **equals the average of the previous certain number of values**.

In CANDLE BASICS above, we saw the candle showing the OPENING PRICE and the CLOSING PRICE. When trading, we make extensive use of moving averages.

Specifically, we look at the moving average of the closing price value of a certain number of candles.

In the example below, the Simple Moving Average (SMA) of a series of candles is shown. I am showing the 50 SMA and 21 SMA because they are commonly used values. The Moving Average is an invaluable tool to use when analyzing trends.

You will notice that the 21 SMA follows the candles more closely than the 50 SMA. This is indicating a more short-term trend than the 50 SMA. At some points, the two intersect, and the importance of these intersections between long- and short-term trends will become apparent later when we talk about trading strategies.

It’s important to remember though, that the price will ALWAYS return to the 50 SMA. It’s like a giant magnet, so when it strays far away from this line, you will know that it will bounce back like an elastic.

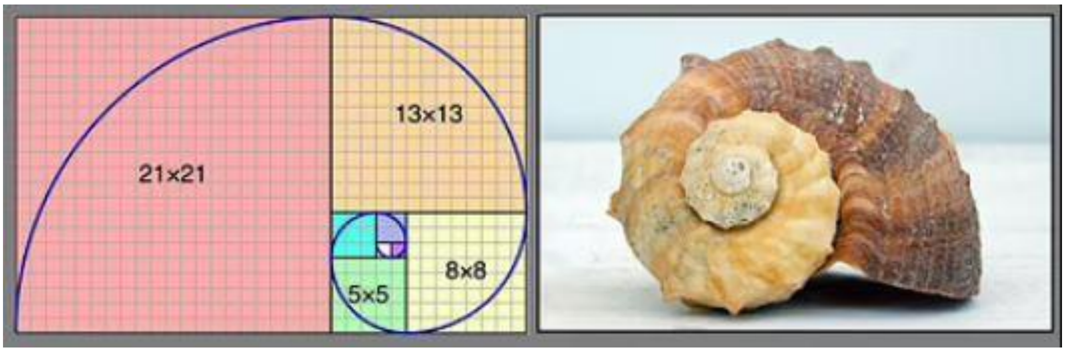
TOOL THREE: FIBONACCI LEVELS

Fibo what?

The **Fibonacci Sequence** is one of the most famous formulas in mathematics.

Each number in the sequence is the **sum of the two numbers that precede it**. So, the sequence goes: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, and so on.

It's been called "nature's secret code," and "nature's universal rule." It is said to govern the dimensions of everything from the Great Pyramid at Giza to the iconic seashell that likely graced the cover of your school math textbook.



Traders have found that weirdly, **the Fibonacci sequence can be found in the way prices behave**.

In the graphic below, see how the price consolidates between bands, then breaks out to the next band.

When used correctly, the **Fibonacci tool can be used for determining profit targets**, as when a price breaks one band, there is a lot of certainty that it will move close to the limit of the next band. This represents a good point to take profit.

We call this type of trading strategy **TARGET TRADING.**

STRATEGY

As we've discussed earlier, **TRADING STRATEGY** is the way we use a **collection of tools** which has been tested to **predict a price action** most accurately in a **certain direction** within a **set of rules**.

The only way to be successful as a trader is to devise and use a strategy.

This is probably the most important statement in this whole booklet.

The easiest way to lose money is by guessing. This is called **gambling** where the banker always wins.

We've had a brief look at some of the tools available to us, most of which work better when combined with others.

Here are the requirements for a solid working strategy:

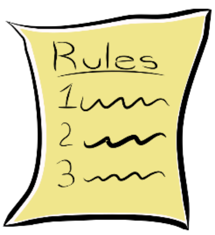
SET OF RULES: The secret to a good strategy is abiding by the rules. It covers the rest of the points, but it must be the starting point. Write them down. Make it a training manual for yourself. The next three points must be a certainty for you.

POSITION SIZE: This is the size of trade relative to your available capital and the strategy risk.

ENTRY DECISION: This is the point or signal that confirms a good trade. This is the point where you hit that BUY or SELL button **using the combination of tools that have been tested for the market you are trading**.

EXIT DECISION: This is the point you have **decided in advance** to exit the trade. This could be **a TAKE PROFIT (TP)** point where we have decided up front to exit, or it could be a point where we realize that the trade is not going the way we had predicted, and we must take an **acceptable loss.** This is called the **STOP LOSS (SL).**

REVIEW: It is important that at the end of each day, to **go through each trade** profit and loss to establish what happened in each. Ask yourself whether you went in too soon, waited too long to make an acceptable profit, waited too long to accept a loss. In other words, did you stick to your own rules?



STRATEGY EXAMPLE
This is a simple Moving Average Cross example. Please note that this strategy has not been tested and I am not necessarily recommending it. It is for illustration purposes only.

RULES:

POSITION SIZE
Equity / 4000
In this case, I have R1,000 equity, so my position size is 0.25

ENTRY DECISION
Red 8 SMA has crossed Green 21 SMA upwards when the 5 minute candle has closed.

EXIT DECISION
Loss exceeds 15 Points (Stop Loss) **OR** Profit hits 50 Points (Take Profit) **OR** RED crosses GREEN after candle closes.

In the above example, **my trade EXIT was at a TP of 50 pts.** I could have let it run until RED crossed GREEN again but look at the next long Red candle after my exit decision. This could have happened two candles earlier, and I would not have made my 50 points. In fact, it is closer to 40 points.

REVIEW:
Entry point was clear, and I entered at the right time.
The price never dropped to my Stop Loss position of 15 points
Exited at 50 points (at my TP level which I set), resulting in profit of R25 (2.5% of my equity).
My daily target of 2.5% has been reached. I'm going for a beer.

RISK MANAGEMENT

We have laid out some examples of **tools** you can use in your trading strategy. These include candle formations, moving averages and Fibonacci Levels. Other examples are MACD (Moving Average Convergence and Divergence), Stochastic Oscillators and Bollinger Bands. There is extensive material available online on each of these last examples and the ones we've covered. There are also many trading strategies out there combining a range of tools available on MT4.

We have discussed setting out **rules** for each of our **strategies**, and how important it is to stick to those rules. We have also stated that **a good strategy is one that succeeds 70%** of the time. What is important to remember that this is only true if your failed trades have a strict STOP LOSS in the strategy rules. It is no good succeeding with 3 trades at 5 pts each, then allowing your losing trade to exceed the total of your three wins or more than 15 pts. If you make 15 pts on three trades, and lose on the fourth trade, you still have profit in your pocket. This is where **RISK MANAGEMENT** comes in.

RISK MANAGEMENT consists of three main elements. These are **TRADE SIZE**, an acceptable **STOP LOSS** and **PROFIT TARGET.**

TRADE SIZE is also called LOT SIZE and is always a function relative to the amount of equity (OR CAPITAL) you have in your trading account. This is also linked to the certainty you have on your strategy. When you have researched and back tested a strategy, you want to lower your LOT SIZE until you have established good data by live testing it. During this period, you will log your success rate, your take profit level, stop loss level, whether it works across indexes, or works better on one index or Forex pair.

A good way of calculating you trade size, is by including it in your rule set. You trade size would be calculated as a fraction of your equity.

For our first example, at the start of your trading day, you record your equity value, and calculate your trade size by diving your equity by 4000. This means that if you have R10,000 in your account, your trade size would be 2.50. If you make 3 successful trades at 10 points each, and one trade loss of 15 points, you have made 15 points nett profit which translates into 15 x R2.50 = R 37.50 which is 0.375% profit. This doesn't sound like much until you do the numbers.

If you do 8 trades a day and 6 are successful, on your first day, your profit is now 30 points x 2.50 which equals R75.00. This is added to your capital and the lot size will increase the following day because your rules state that at the beginning of the day, you will calculate your lot size according to your starting capital of the day.

In other words, each new trading day, **your profit is compounded**. In fact, as shown below, R10,000 **can grow by 16% in one month** with the above strategy rules, success rate and lot size. Anything more than 10% in a single month though, is heading towards promising you a Ferrari at the end of next month, but DISCIPLINED TRADING and a STRONG AND TESTED STRATEGY can get you really close to these numbers.

Day	Start Capital	Trade size	Points of Profit	Profit	End Capital
1	10,000.00	2.50	30	75.00	10,075.00
2	10,075.00	2.52	30	75.56	10,150.56
3	10,150.56	2.54	30	76.13	10,226.69
4	10,226.69	2.56	30	76.70	10,303.39
5	10,303.39	2.58	30	77.28	10,380.67
6	10,380.67	2.60	30	77.86	10,458.52
7	10,458.52	2.61	30	78.44	10,536.96
8	10,536.96	2.63	30	79.03	10,615.99
9	10,615.99	2.65	30	79.62	10,695.61
10	10,695.61	2.67	30	80.22	10,775.83
11	10,775.83	2.69	30	80.82	10,856.64
12	10,856.64	2.71	30	81.42	10,938.07
13	10,938.07	2.73	30	82.04	11,020.10
14	11,020.10	2.76	30	82.65	11,102.76
15	11,102.76	2.78	30	83.27	11,186.03
16	11,186.03	2.80	30	83.90	11,269.92
17	11,269.92	2.82	30	84.52	11,354.45
18	11,354.45	2.84	30	85.16	11,439.60
19	11,439.60	2.86	30	85.80	11,525.40
20	11,525.40	2.88	30	86.44	11,611.84

Monthly Profit	**1,611.84**
Caiptal Growth	**16%**

Some mind-blowing statistics:

If you consistently make 1% a day, you could increase your capital by 600% in you first year.

If you start with R10,000 and make 1% a day, your **investment will hit R1m at trading day 463** (at 18 trading days a month that's just **26 months**)

If you make 2% a day, that first million is in month 13.

For our **second example**, we'll compare our trading business to buying a Franchise. It costs about R2,000,000 to open a Steers Franchise in South Africa. Average revenue is around R2,400,000 per year. At an optimistic 10% nett profit after tax, that translates to around R240,000 per annum, or around **R20,000 per month** for a self-funded owner that employs managers.

This trading model is right on the other end of the risk level compared to our first one on the previous page - with a trade size reduced relative to the capital invested to reduce risk. **Trade size is pegged at Capital divided by 8,000**. We are aiming for **just 10 points of profit per day**. This could be three or four trades in the morning session, or in the evening after your day job.

Day	Start Capital	Trade size	Points of Profit	Profit	End Capital
1	2,000,000.00	250.00	10	2500.00	2,002,500.00
2	2,002,500.00	250.31	10	2503.13	2,005,003.13
3	2,005,003.13	250.63	10	2506.25	2,007,509.38
4	2,007,509.38	250.94	10	2509.39	2,010,018.77
5	2,010,018.77	251.25	10	2512.52	2,012,531.29
6	2,012,531.29	251.57	10	2515.66	2,015,046.95
7	2,015,046.95	251.88	10	2518.81	2,017,565.76
8	2,017,565.76	252.20	10	2521.96	2,020,087.72
9	2,020,087.72	252.51	10	2525.11	2,022,612.83
10	2,022,612.83	252.83	10	2528.27	2,025,141.09
11	2,025,141.09	253.14	10	2531.43	2,027,672.52
12	2,027,672.52	253.46	10	2534.59	2,030,207.11
13	2,030,207.11	253.78	10	2537.76	2,032,744.87
14	2,032,744.87	254.09	10	2540.93	2,035,285.80
15	2,035,285.80	254.41	10	2544.11	2,037,829.91
16	2,037,829.91	254.73	10	2547.29	2,040,377.20
17	2,040,377.20	255.05	10	2550.47	2,042,927.67
18	2,042,927.67	255.37	10	2553.66	2,045,481.33
19	2,045,481.33	255.69	10	2556.85	2,048,038.18
20	2,048,038.18	256.00	10	2560.05	2,050,598.23

Monthly Gross Profit	50,598.23
CIT Tax rate flat rate of 28% Assuming zero expenses	14,167.50
Nett Profit	36,430.72
Dividend paid less 20% witholding tax	29,144.58

This is with no staff, no customers, no landlord, no Franchisor, no theft, no cash risk, no complicated point of sale system, no credit card machines, no weekend work, no 14 hour days, no annual refurbishments, no menu changes, no advertising…..

DIVERSIFICATION

Diversifying is an extension of risk management. Retailers use this all the time to mitigate fickle fashion fads.

There are several ways to diversify.

Trade more than one index. The DAX, the DOW and the NASDAQ all have their own personalities, their own ‘breathing cycles’ their own influencers. Their volatility levels differ, they trade volumes sometimes differ on different days. While one market climbs, another may be falling. A DAX strategy may not work the same on the DOW and will require some tweaking.

Trade the same market, but on different time frames. There are good strategies that work on hourly candles which won’t work on 5-minute candles. Find a good strategy for each time frame.

Use different strategies on the same market and same time frame. It’s beneficial to have more than one strategy with its own set of tools so that each can confirm the other. If you have two or three strategies pointing in the same direction, it increases certainty.

Use different LOT sizes across different markets. A good trade on the DOW may be 10 points, while for NASDAQ it is 5 points. Adjust your risk management and strategies accordingly.

Use smaller LOT sizes but trade several markets simultaneously. A big success on one market may mitigate a loss on another. This works better when trading on longer time periods. Doing several one-minute trades simultaneously can be overwhelming and increases the risk of mistakes.

Use small LOT sizes to test new strategies. It’s better to test a new strategy with a live account than a demo account. You need to feel the stress of the spread and the emotional satisfaction of each trade while not risking a lot of your capital while testing.

THE PSYCHOLOGY OF TRADING

I want you to go back to the Red Shoes Green Shoes Story and focus on the guy who failed and then continue reading.

FEAR

A common thread among traders is the level of fear they experienced when they first started live trading. It's the fear of losing money. The fear of risking all that you have. This is often exacerbated in those early days by an experience of a large loss.

This is largely a fear of the unknown. Picture yourself traveling through time from the Middle Ages, and you end up on an aeroplane. The terrifying fear of flying for the first time would be enough to kill.

Fear is mitigated by certainty. Certainty comes with **having a plan** and knowing the consequences of your actions. Work with a **proven strategy**; **stick to the rules** you have set for your strategy; take the **acceptable losses** you have set when things don't go your way; **calculate your risk**; and **constantly review your performance.**

These are the **certainties you can bring** to fight off the fear of the unknown.

With a plan, you have very little to fear. When you realise that trading can **and must** be built along sustainable and realistic growth, you take away the fear of risking everything for the Ferrari you were promised by the end of next week. This is reality. If it looks too good to be true, it probably is.

I need to remind you again about trading being the same as any other business.

Capital, Skill, Discipline, Review, Improve.

GREED

Dopamine: that natural drug that shoots into your brain naturally with sex and easy money.

You're watching the trade, glued to your screen. You've shot past your Take Profit level in your set of rules, and the candles are still running. What to do, what to do? Maybe you can double your profit target if you just leave it a little longer.

Next thing BAM! The candle turns on you and next thing you know, the trend has turned and suddenly you're in a loss again. Well, maybe hold it a bit longer, maybe that candle was just an outlier, surely it must turn again back in the right direction? It doesn't. You lose. Again. Big Time.

Chances are, that in the last few trades, you had a lucky streak, a big win. The dopamine rushes through your veins. If you could do this with every trade, you could really afford that Ferrari by the end of next week!

You know the lecture I'm going to give you now:

Strategy
Rules
Stick to them

The best way to avoid greed is through practice. Yes, you will have the occasional quick runs to your target TP, and the dopamine will kick. But the next time, it may take longer, or even result in a small loss. Every trade you do, the practice will ensure that the wins, even the easy ones, become a way of life. It will become as easy as dealing with both happy and angry customers. You need them both. This is a business after all.

DISCIPLINE

This is where you bring together all the elements every time, every day, every trade. This is your craft. This is your Olympic Medal Training Regime. This is your constant practice on your piano.

We have discussed knowing what **tools** are available to you and creating a **strategy** combining these tools.

You know that you must set up **rules** for your strategy.

We have discussed the pitfalls of **fear** and **greed.**

We've briefly touched on **setting a position size** based on realistic targets and acceptable risks.

I would like to add some extra elements of discipline for you to consider.

Keep regular working hours. The DAX opens early in the day, and the DOW closes late at night. Don't work an eighteen-hour day at this. Often the best trade opportunities happen in the first two hours of opening of the DAX, and then again during the first two hours after the opening of the DOW. Take an hour to prepare before these openings, and the two hours after opening. Then stop. You can even choose either the morning session or the evening one, you don't have to trade in both sessions.

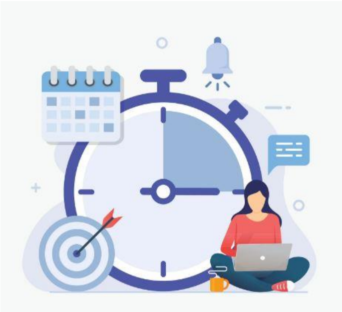
Take mental health days. Trading can be stressful, like any other profession. Recognise when the stress is getting to you. You may have had a few consecutive losing trades and your confidence is low. Take a break. Watch the markets for a day or two without trading. Chat in your trading community.

Avoid FOMO. The Fear Of Missing Out. Taking your tablet to a lunch date just in case you spot a good trade. Not cool. Diarise that lunch date and accept that you will be closed for business.

Keep track of your progress. Keep a spreadsheet. If you don't know how to set one up, ask your teenager. Make a graph to track your progress towards targets you have set for yourself. Make the targets real. A picture of a Ferrari as your laptop background can put enormous stress on you.

Practice your craft. If you feel like you are losing your edge, reduce your position size to a minimum and practice until you get that confidence level up again.

Discipline is an important of any business, sport, and hobby. **There is no success without discipline**. If you take discipline out of the equation, then you are relying on luck. You might as well go gambling.



YOUR TRADING COMMUNITY

Why Trade in a Community?

One of the most unique features of making trading your business, is that essentially, you don't have competition. (What???).

Think about what we do.

Billions of dollars' worth of forex, shares, indexes, bonds, CFD's, Futures are traded each day.

Picture this trade volume as a massive oil pipeline running through the desert. All that each of us is doing, is making a pinhole in that pipeline, and drawing an infinitely small amount out of it. You can stand right next to three hundred fellow pipeline tappers, and the volume available is still the same.

If the bloke next to you has a better method to extract, he can share it with you, knowing it's never going to influence the total flow, and therefore the volume of his extraction.

That's one of the key reasons that trading in a community is incredibly beneficial. The sharing of knowledge only makes each one of us more profitable, without taking away anything from anyone. Hundreds of traders using a strategy that works cannot influence the market and the way it moves.

Choose your broker wisely

The trading industry is **highly regulated** for good reason. As traders, we need to know that when we deposit our capital with a broker, it is protected. No-one can touch the money and gamble it away on an expensive tropical island somewhere. The hurdles and the huge liquidity required to become a licensed and regulated broker are immense. Brokers protect their licenses fiercely because of the large outlays in capital and technical infrastructure required. They protect them by sticking to the rules. The industry is regulated with a fine-toothed comb.

The are many benefits to using Blackstone as a broker.

They are Registered and Regulated in South Africa. South Africa are way ahead of many countries in terms of Financial Regulations. This is vitally important to protect your capital.

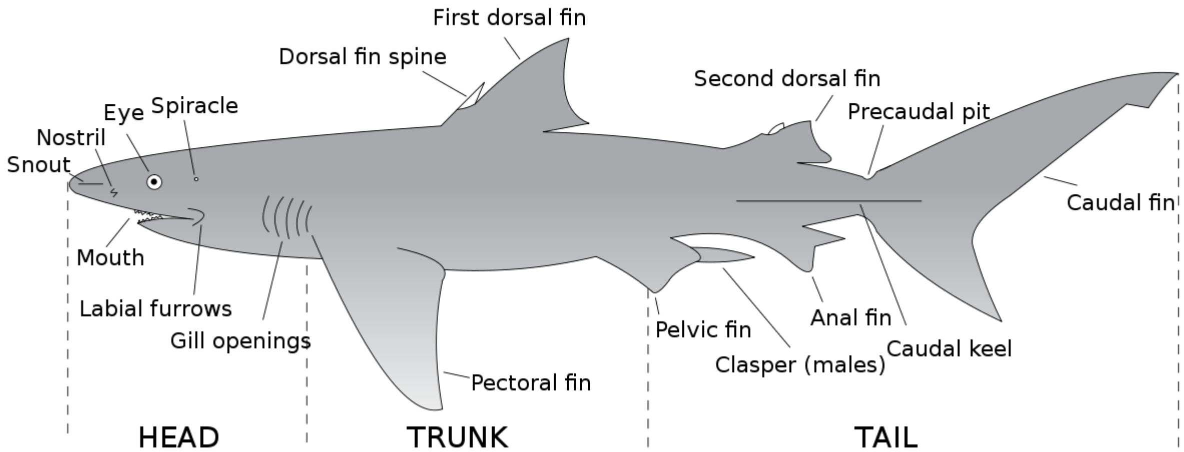
You can trade in Rands. You always know how much you have. There are no foreign exchange risks. The amount in your account is the amount in your account.

You can trade in small lot sizes. This means you can start trading with very little capital – as little as R50. If you can only trade in USD, and the minimum lot sizes are 0.1, new traders can lose money like a leaking bucket – even if spreads are smaller in some cases. And where is your money and under what country's regulations are you operating under? What recourse do you have if you order a withdrawal, and you never receive it?

You won't get thousands of marketing calls from them. One of the biggest gripes I have with so many brokers is the relentless number of calls to deposit more cash.

Brokers make money from each of your trades through the SPREAD that we spoke about earlier. The smaller the spread, the smaller their profit, and therefore the higher their motivation for you to trade as much as possible. Essentially, whether you make profit, or lose all your cash, they still make money. Many of their business models is to extract as much cash out of you as possible, and as soon as you lose it all, they're already onto the next fifty people for their cash. Their thinner spread necessitates a high turnover of targets (they call them clients).

Why will you lose it all? The main reason is that there is no trading support, instead there are just flashing lights and pictures of Ferraris. It's just a numbers game based on impossible dreams.



Why Trade in OUR Community?

Trading can be lonely and sometimes frustrating. This is why we have created **a unique community** in which you can trade alongside others in the same situation.

Remember I said before: We are not Competitors. Here, we help each other to grow into consistently profitable traders.

We meet up on **Zoom** three times a day to accommodate even the busiest of schedules. **These live trading sessions** allow our members to take trades in real time, which greatly reduces fear and anxiety - especially among those that are new to trading.

Removing the fear around trading allows you trade with more ease and comfort so that you can focus on the trades, rather than the peripheral discomfort.

As part of a **community**, you learn to **develop discipline.** This will help you develop your own **successful trading system** and **profitable business**. By having a system or a plan to follow and the discipline to stick to that plan, will greatly increase your success as a trader.

Here, we teach you **how to conduct full scale statistical analysis** of your trading plans through **back testing** the markets and using mathematical diagrams such as scatter charts and bell curves to gain a deeper understanding of how their systems operate and their strengths and weaknesses.

As markets change, we can **change our trading plans** and remain ahead of the curve to **stay profitable.**

You will also be taught how to look at **your own personal trading implementation** and identify any **psychological toxicity** in your trading style, **giving you the edge** that 90% of traders lack.

Join one of several **TELEGRAM groups**, each focusing on a different aspect of what we have to offer.

Firstly, in our **"Chart Set Ups"** group you will receive daily updated on our strategies across various markets and timeframes to ensure that every one of our members are on the same page. These strategies include entries, exits and stops for each strategy and will discussed at the beginning of each Zoom session as we conduct our market analysis so that we know where we are in the market and where we are going.

In our **"Strategy Testing"** group we push the limits, being on the forefront of innovation as we improve on our existing strategies and giving you the opportunity to be part of the development of ground-breaking new trading strategies in our efforts to stay ahead of the market.

In our **"Long-Term Trading"** and **"Day-Trading"** groups we cater for every type of trader, delivering set ups and notifying our members as trades are triggering across various types of markets such as commodities, indices, and even stocks.

We also have a **"Chit-Chat"** group where our community can get together to share their personal ideas and discuss all trading related topics amongst a harmonious peer group.

You can also schedule a **one-on-one appointment** with our trading coaches to help you in your journey to becoming a successful trader. These sessions can cover anything from basic platform operation to helping you gain an in-depth understanding of any strategy or technical analysis issue you might have.

We also offer a one-of-a-kind **customisable signal service** that is set up on your platform. These unique programs can be fine-tuned to suite the time frames and markets that you enjoy trading the most to give an advanced warning just before a strategy is about to trigger for an entry to a trade.

Due to the unique nature of our **signal service**, you don't have to rely on anyone sending you a message that **a strategy is about to trigger.** Be notified at any time of day or night and never miss a trade. Our friendly tech support is available to provide a full installation of this service and to ensure you are always up and running.

As part of this community, you will be taught the principals, qualities, and any technical understanding that you need to be the best and most profitable trader that you can be.