

## Using Checklists

In my opinion, your unique personal discipline is more significant for your potential success than your execution method or your trade management rules. I've worked with hundreds of different kinds of traders from all over the world and there is truly "no two alike" when it comes to the "why" of doing a trade. As I discuss in my *Psychology of Trading* course the actual method of identifying a trade and then managing that trade so that you end up making money is unique to YOU, the individual, and therefore cannot be judged as "successful" by anyone other than you. Whatever method you use—I don't care what it is—how sophisticated it is (or is not), what time frame it operates under, trend-following or not, fundamental and/or technical; WHATEVER—it will have its share of winning trades and losing trades. Every approach used and/or created by YOU (or someone else) has a degree of probability to it. Your goal as a trader is to fully understand exactly what the probabilities of your method are AND how to fully capture those probabilities without hinderance.

In other words—you have to know what your system/approach/method is really capable of paying you and you have to know how to stay out of the way of getting that payoff without setting yourself back by making mistakes.

For example—if you have done an exhaustive study of your entries and exits over a reasonable sample set (Say—200 actual real-time trades) you would be able to know what your percent winning trades to losing trades was. As long as that ratio is somewhere beyond 42.5% there is a very good chance you will be a net-winner with that method. BUT—if your average cash win is not at least twice as big as your average cash loss—the probabilities begin to drop against you. Your goal would be to find a way to keep your net wins-to-losses ratio at or beyond 42.5% AND keep your profit-to-loss ratio better than 2-to-1. This is the Probability of Ruin matrix discussed earlier. Download a printed copy of the matrix [HERE](#).

As every trader knows—that is all very well and good—but the fact is you are doing your business ONE TRADE AT A TIME and you are doing it in real-time when anything can happen and you have no idea what the next moment might actually bring. Therefore—all those silly little mistakes that (In hindsight) appear very manageable and easy to control take on a life of their own and can easily cripple the best intentions of the best trader. Every one of us has had real-time trading experiences that we would have done COMPLETELY DIFFERENTLY if we would have been thinking clearly and in control of our actions. But the "heat of battle" disrupts our plans; our focus. Things happen that "don't make sense" at the time, events "throw us a curve"; etc. If you have been trading for any length of time you know exactly what I mean.

In my personal experience I discovered some things that might sound common place or even ridiculously simple; and they have the power to change our lives. One such thing is a checklist.

You cannot reach your goals without making more money on your winners than you give back on your losers over time. You cannot make consistent money from your trading if you have no plan of action. If you SAY you have a plan of action...but you have no data to support that you are ACTUALLY following this plan...then you have no plan. Your trading is LESS organized, and the potential is higher for losses.

A checklist is the simplest and easiest way to compare your actual performance against your needed and/or intended one. It will help you confront emotional interference and “fudging” your rules.

I personally use several checklists. All of them are included here. They are checklists that provide me a way of staying on course with how I use my time and how I follow through on my behavior. These checklists are created so that I would not be tempted to “shoot from the hip” or “improvise” when the time came for perfect discipline. These checklists are the cornerstone to my discipline. Because it is very easy to see what your behavior truly is when compared to a checklist that states quite clearly what it should be.

#### **AM Trading Checklist:**

- **Up at 5:00 AM—start with daily written logs**
- **Read Rules/Daily Focus/Daily Execution Checklist**
- **Journal & Excel Logs open, 11x17 note sheets**
- **Read 3x5's**

**Plan each and every trade. Follow the toolbox; do not improvise!**

#### **PM Trading Checklist:**

- **End of day @ no later than 6:00 PM**
- **Read rules/Daily Focus/Daily Execution Checklist**
- **End the day with a final journal entry**
- **Review open trades, move stops if needed for the overnight session**
- **Log all trades, dates/times of stops to electronic spreadsheets, Log all daily discipline to Weekly Performance Logs**
- **Read 3x5's**

I start each day and end each day with reviewing each of the above checklists. I want you to imagine me at my desk just sitting there...doing nothing after I start the day with my AM checklist, and I have already done each thing on that checklist. All my tools are there. My

trading platform is open and there is nothing else happening. I am sitting there—doing nothing—when my trade system produces a trade entry signal. At that point—I reach for my next checklist:

### **Entry Checklist and Rules**

1. **Where is the signal? There MUST be a high time frame signal active in the past 24 hours for any NEW order to be placed. In other words: An active signal and a low time frame signal are still valid for entry if they are congruent in the past 24 hours.**
2. **Limit orders are preferred for entry; market orders are OK if the rule supports it on that particular signal.**
3. **Did you place a 40 PIP stop?**
4. **Are all trades logged in your paper & electronic logs?**

### **RULES:**

1. **WAIT one hour before doing anything in a pair after stopped-out with a loss.**
2. **ALL EMOTIONS are clues to DO NOTHING.**
3. **Roll B/E stops on a 50 PIP gain, lock +50 on a +125 PIP gain, lock +100 on a +200 PIP gain, lock +150 on a +300 PIP gain; then WAIT.**
4. **Take ALL valid signals regardless of active/open positions or orders.**
5. **NO SIGNAL---NO TRADE**
6. **WAIT for the close of the bar ALL THE TIME. WAIT for that next little tic to start the next bar before acting on any signal.**

### **Things to ALWAYS remember when executing:**

1. **I am not missing anything by doing nothing; the markets WILL ALWAYS provide another trade so I can sit and wait for it if my rules require it.**
2. **“Getting my money back” is an illusion. I will always make money NET by following my rules—not by thinking about gains/losses as being “needed”**
3. **If I feel any emotions—they will cost money if I act on them.**
4. **Winners take care of themselves—and they are ALWAYS there; the probabilities prove that.**
5. **Money flows into my accounts from my discipline—not from my signals or my trading—my discipline is the only thing that matters.**
6. **My account balance will double every 120 days or sooner if I FOLLOW MY DISCIPLINE & MY RULES ALL THE TIME.**

The state of mind I am attempting to be in all day long is what I show you in the “Circle of the Trade” You can get a PDF poster of the Circle of the Trade in the Bonus FREE Material section of my website.

What should be clear from reviewing these checklists is that I intend my discipline to be at the highest I can make it every day and I intend to execute that disciplined flawlessly for myself. I use the checklists and the rules/reminders together to reinforce the intention of flawless discipline.

At the end of the week, after everything Monday-through-Friday has been done at the highest level I can make it, I do a Weekly Checkout. I am usually up at 05:00 on a Saturday morning too so it is no effort to start my day with a “market check” even though nothing is trading. I sit at my desk and follow through on my Weekly Checkout.

#### **Weekly Checkout—Friday PM or Saturday AM:**

- **Print weekly brokerage statements for all accounts (After FRI close at the earliest)**
- **All written & electronic logs/journals updated, post “After Trade” data to most recent weekly Excel logs (1 WK back)**
- **UPDATE the Stats & Ratios written summary pages**
- **Create new spreadsheets/logs for upcoming week**
- **Update Day-Timer for next week, save weekly economic data**
- **Journal weekly checkout by pair—all time frames**
- **Review 3x5’s**
- **Clean, Backup & Update Computers/ Software; Backup data**

**Did you break any rules?**

**Did you make any trading errors?**

**Did you roll stops to reduce risk or lock profits?**

**Did you ADD to open winners?**

**Did you record everything relating to your effort properly?**

As you can see—this is a very complete set of things to follow-through on each week. Because I am so focused and organized M-F this checkout tends to go fairly quickly but I need a solid hour to do it all the way. I would have to say that that hour every Saturday morning is probably the most significant hour I invest in my trading every week. I focus in and review the entire week’s performance and results. I can see INSTANTLY where I was on track and where I get off track. It makes my starting point for the next week very solid and profitable. I tend to make the most money early in the week.

Be sure to view the other tools listed on the website for additional clues on how to remain focused on developing your market-centric trading paradigm.

### Note to the Reader:

By offering you the material provided throughout my website at no cost to you, it is my intention to help the serious trader shorten his or her learning curve. In my view, there is no “easy way” to develop your winning approach or to create a market-centric trading paradigm; there is only a “consistent way” that is a result of two things working together: Your increasing level of personal discipline and your increasing knowledge of how to create a non-attachment mindset.

If you find that your pathway is reaching a frustrating point, or that you find yourself at a place in your growth where you just can't seem to get beyond; it is very likely that you are at a point in your trading where working with a qualified mentor/coach is the next step for you. If (or when) you get to that point and you are willing to consider finding a mentor/coach, please consider using the “contact me” form on my website, I still accept traders interested in working with someone and it might be a good fit.