ReadySetCrypto Futures Masterclass

Module Three: Building a Trading Business Framework

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Introduction to Trading Business Frameworks

Not to be too presumptive, but I know how the majority of all futures traders get started trading a market. See if this cycle sounds familiar:

- Hear about trading futures and see the potential.
- Open and fund an account.
- Stick your toe in the water with a few trades over the next week or two, generally incurring larger losses and smaller wins.
- Get tangled up in the emotions of a big-volatility day, chasing every move near its end, and burn through the capital in that account to the point where you can no longer open up a new trade.
- Ponder the meaning of life.

I've done it, my friends have done it, just about everyone that I've talked to has done the same thing. It's an unfortunate rite of passage that doesn't need to occur, but all-too often is repeated.

Futures are amazing for their profit material in a short period of time; there is literally no other form of active investing that produces gains in so short a period of time. Unfortunately, the converse is also true. The knife cuts in both directions.

So let me just put it on the table: if you trade with your "gut" or your emotions are most of us do when we start, you will fund someone else's account. Trading "edge" and profits do not come by accident, they come from carefully studying the market's response to events, as well as your own response to various stimuli and how you handle it.

I've already talked about the need to follow a very narrow "path" to success….a couple of times already if you're keeping score. In this module we'll start to diagram that path to success, and it starts by us starting to run our trading efforts like a business.

Turning Your Trading Into a Business

As soon as I make this suggestion, everyone wants to run out and form business entities like Chapter S Corporations, funneling their profits into Nevada LLCs. Stop. Sheltering ourselves from unnecessary taxes would be a good problem, yes? That assumes that you have profits to be taxed, so let's go ahead and create a tax problem for ourselves.

Once we create a tax problem, we can shift our efforts to solving that tax problem by hiring the necessary experts to do so. That will not occur in this program; my job is to help you create that tax problem to begin with.

The main point here is to stop trading like a "hobby" or a "video game" and start to turn your trading efforts into those of a for-profit business.

We don't have to make this difficult. We just need to add some "purpose" and structure.

Businesses start with a plan to meet goals/objectives.

The objective is usually to make a profit for those investing in the business.

They execute that plan via a defined strategy.

They measure their results, and compare them vs. their plan.

Adjustments are made to operations until results meet goals specified in the plan.

Corporate strategy also operates at a higher level to keep notice of changes in the environment that might affect performance of the plan down the road.

Strategy also figures out how to introduce new, parallel ventures into the process without disrupting the performance of the one that's working.

Now if you haven't gotten an MBA over the years, or have never taken a day of classes about business, have no fear. It all comes down to a process that we'll set up, one that you will start from this day forward and never stop as long as you trade risk assets in financial markets.

And all of this is based on a process that I call the Strategy Development Cycle, defined in Figure 1 below;

The Strategy Development Cycle

Figure 1

Not much to it, right? This is the same process that athletes and businesses and military organizations around the world use, regardless of their intent. ***Continuous Process Improvement.*** It's all about the process of STARTING somewhere and then IMPROVING from that starting point by making adjustments. No one expects you to be perfect from day one, and you should not expect to be, either. (remember my analogy about doctors and how many years it takes them to open their practice!)

Where do you start with the Strategy Development Cycle and how do you use it? We should always start at the "top" with Goals!

Defining Goals

What do you want to accomplish by trading? Write it down! Most people say, "*Well OBVIOUSLY I want to make money!!*" That might be true, but you need to write it down in your Trader's Business Plan. How much of a return? Trading how much capital?

What will you do with your profits? Don't worry about getting this "right" out of the gate, the Strategy Development Cycle is an iterative process so you will learn how to tune your trading as you go forward. But you must take the first step to move forward, and that first step is pounding a stake in the ground with your initial goal in terms of what you are hoping to achieve with this trading effort.

Defining Your Rules

It would shock you how many retail traders tangle in the markets without any form of rules or structure behind their trading. Your "rules" in this case is your Trading Plan which is going to be defined by Strategy; a trading plan for Futures trading is going to be vastly different from one concerned with value investing.

We're not going to be defining trading plan rules just yet, we'll start to build that process in module five as we get into Trading Systems.

Measuring Results

Most retail traders measure results by whether their account balance is going up or moving down. A bad trade? Sweep it under the rug and keep going. A good trade? High five everyone within reach and fist-pump the celebration. By operating in this manner, however, you're missing out on the "gold." Winning trades convey very little information, other than hopefully reinforcing the good habits that led to that decision. Losing trades, on the other hand, are a gold mine of information that you can use to improve your results.

There is one very specific tool in the form of a Tracking Journal that I will refer back to constantly as we navigate through this course. Without using some form of analytical tool to help us understand how we are processing decisions, and introducing error, then we might as well just donate our account balance to the nearest charity; this step is that important.

Making Corrections

There's a reason why a steering wheel is placed front and center on a car, right? We're making adjustments constantly, subconsciously…otherwise we'd run off the road. As we get feedback from our trades, good and bad, we need to evaluate the results (from the last step) and then determine what we're doing wrong to create losses.

This can be somewhat of a daunting challenge when you are fairly new to trading, as the "root cause" behind a losing trade can be evasive, and you'll end up blaming "whales" or "phase of the moon" or something uncorrelated. As you build up experience, and particularly as you're able to see the "moves within the moves" shown by fractal price action, you'll have a much better sense of what's happening "under the hood" of the market that you're trading, and consequently you'll start to make better decisions, and come to more relevant conclusions based on your results.

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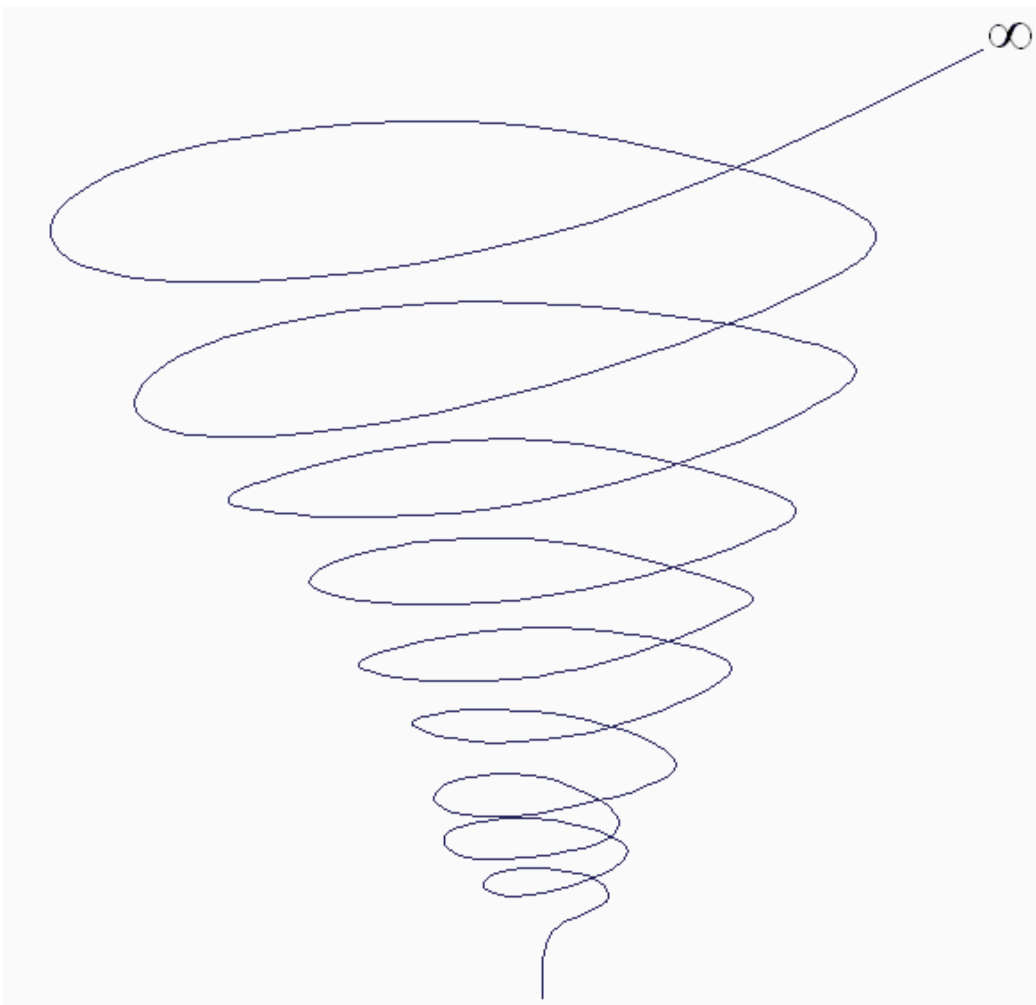
And Again!

Beginners stop after one revolution of the Strategy Development Cycle. Professionals never stop evaluating and learning from their results. Which one will you be?

The whole point here is to form what is an “ascending spiral” of performance, with the more that we follow this Strategy Development Cycle, the better we’ll get at something, as is suggested in Figure 2.

Figure 2



Earning the Right to Trade

OK, you've secured an account, have a computer to trade on, and have set up trading strategies (module 5) and you're ready to go. Or are you?

Chances are that this won't go well, based on the enormous sample size that I'm reminded of every day where this venture does NOT go well.

Let's say you've put everything together as far as a Trading Business Framework:

- You've created a trader's business plan
- You're trading a specific niche that you defined in module 4
- You've created a specific trading plan based on your strategy (module 5)
- You've got rules #1 and #2 nailed for your risk management (module 6)
- You've picked a broker and have learned how to "drive" it (module 8)

Now, THIS subset of traders will have a far better record than the usual bunch of retail traders that fund an account and "play." But there's still one more step that becomes part of the Trader's Business Plan that I want you to add. I want you to ***earn the right to trade live capital***. Think about it…go back to the Doctor analogy. Just because you have a funded account, does that mean that you have an *edge* in this market? If you're not sure of that answer, then by default it's NO.

How does one go about earning the right to trade live capital? *Through repeated, consistent positive performance.* And I'm talking more about your ability to follow your rules and your trading plan than I am about financial gains. If you're able to follow a good trading plan that offers edge, and follow it day in and day out, then the gains will come.

What I would suggest to get to that point is a phased approach…take it one step at a time and don't try to become a professional overnight. We know how that story ends.

Stage One - Sim Trading

Simulated trading gets such a bad knock from the professionals, because it doesn't simulate the emotions that you'll feel when you have a live position at risk. Fair enough, no argument there, however we're not even at that point yet.

In this stage you need to learn how to make money with your trading system.

All of the elements have to be there in concert….the edge, the risk management, the execution, the defined niche. If any of those are lacking, the system will not make money, or will barely cover transactional costs.

So, if you don't know if your system will make money for you yet, why risk any of your precious trading capital? It just doesn't make sense, especially at the front end of your trading career.

What I will typically do in this stage, particularly with short-term futures trades like this, is look to take a sample size of FIFTY trades with a "simulated" or "paper trading" interface.

- **The first thirty trades is where I nail down my strategy and execution details.**
- **The last twenty trades is where I earn the right to "graduate" to the next stage.**

I see so many people in a rush to trade, like the market's going to get away without them. If it's a solid market, it'll be there next month.

So I use the first thirty trades to really make a mess of things. I don't really care so much about the outcomes, I'm more concerned about learning things about that market and how the setups work.

By the last few trades of the initial thirty, I should have things figured out pretty well, and it's time to go to "dress rehearsal." For the last twenty trades of the initial sim fifty, I want to win a certain percentage of trades and achieve a certain profit factor. (I'll explain profit factor later on in the program) It's almost like I have to have a certain grade point average to "graduate" to the next level. And if I DO hit those numbers, then it's time to move to the next stage:

Stage Two - Small Live Trading

Once I'm in stage two, I'll switch to live trading, with normally VERY SMALL live positions. The purpose of this stage is very simple: I want to duplicate the performance that I hit in the last twenty trades of Stage One, where I was still using sim capital.

The purpose of this is to make sure that I'm not "trading not to lose" with live capital, which is a performance-killer of any strategy.

The purpose of this stage is to transition to live capital with similar results.

Once I'm able to do that, then I'll move to stage three:

Stage Three - Full Sized Live Trading

As the name suggests, this third phase is where I'm using normal-sized positions using the risk management rules of module six. If the performance of this stage drops below a certain threshold, I will downgrade myself to Stage Two again while I fix the root issues, and then "re-qualify" myself to graduate back to Stage Three.

This is the "production" phase where I should spend most of my time with a market-ready strategy.

Unfortunately, this is where most traders begin their trading at and get frustrated that they cannot instantly win profits. Everything in trading is a journey, and it starts by teaching your subconscious mind that you have *earned the right* to trade live capital.

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Summary - Building a Trading Business Framework

In the associated video for this module, I'll provide visual references for some of the tools that we'll use in this process, such as:

- An example Trader's Business Plan
- An example Tracking Sheet

I would encourage you NOT to just do a blanket copy/paste of these resources for your own use; the very best use of these resources is when you put in the time to "make them yours" which has the added effect of internalizing this strategy into your subconscious mind. In a way, this "gives permission" to the subconscious mind to accept "risk" as being a good thing. This is a very subtle, yet extremely important point that you'll have to bridge sooner or later.

And hopefully you honor the point of this module; apply a FRAMEWORK to your trading, treat it like a BUSINESS instead of like a video game as so many do.

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Homework and Next Steps

Please complete the following tasks before moving to the next module:

- [ ] Watch the associated video for this module.
- [ ] Take the module quiz
- [ ] Begin the process of building your Trader's Business Plan
- [ ] Download and start to modify your Trade Tracking Spreadsheet once you hit module five and begin to create a strategy.