

ReadySetCrypto Trading Edge Masterclass



Module Five: Creating Your Business Plan

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Creating Your Business Plan

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Running your Trading like a Business

You've seen the pictures of the guy lying in a hammock with a laptop and a big smile, presumably trading his way to fortune and freedom. You've seen the commercials with the guy on the corner café, pecking away at his laptop, using "*the tools and research that he needs to make informed decisions.*" Please...forget about these images. If there's one thing that we hope that you've picked up from this program so far, it's that trading is not about fun and excitement and adrenaline. Save that image for Hollywood and Madison Avenue. Trading is going up against the very best in the world, true remorseless warriors whose only job is to separate you from your cash. You're trying to return the favor. To have any chance at all of long-term survival, you need to run your trading like a business.

Trader's Business Plan

If you're going to run this venture as a BUSINESS and not just an expensive hobby, then you need a **Trader's Business Plan**. Far too many traders just waded into this business thinking of all of the riches waiting in that pot of gold at the end of the rainbow, only to find that the rainbow dims as they lose their way. Name a Fortune 500 business that doesn't have an annual plan in place...you won't find one! The shareholders demand it for those companies, as your stakeholders should demand of you.

What should be included in a Trader's Business Plan? We've found the best example of one to be in John Carter's book, *Mastering the Trade*. His sample plan is built by answering the following questions:

- Why am I trading again this year?
- What Markets am I going to trade?
- What specific strategies am I going to use to trade these Markets?
- How much money am I going to allocate to each trading strategy?
- How will I rank and track my trades?
- What are my drawdown rules?
- What are my profit rules? (daily goals)
- What is my office setup going to be like?
- What are my rewards if my trading goes well?
- Are there any groups or organizations that I'd like to help out this year?
- How will I maintain this to "stay on plan" throughout the year?
- What am I doing about my physical health?
- What Trading Education Goals/Plans do I have?

Building a Trader's Business Plan is not a difficult task, and you don't have to be perfect your first try. That's what the Strategy Development Cycle is for, shown in Figure 1:

Figure 1



You start this cycle by specifying Goals, which then are implemented through Rules. Eventually you'll see results, after which you can determine whether or not your results will lead to you meeting your Goals.....and if not, you make Corrections.

Repeat this cycle and you're now running a Continuous Improvement Process just like any Fortune 500 corporation. After all, they do it, why shouldn't you? Your Trader's Business Plan needs to be constantly evaluated through a Development Cycle like this.

Most Traders' Business Plans get written during a bowl game on January 1st and are collecting dust within a month. Use the same cycle....Goals/Rules/Results/Corrections to keep you plan current and run your trading operation like a Global corporation!

A Sample Business Plan

The following is an example plan showing the structure behind a Trader's Business Plan. I'd like to suggest that you not just outright COPY the plan, but rather use it as a reference when you build your own plan.

I cannot overstate the importance of creating YOUR OWN PLAN because if it's not "internalized," then the plan will not be "yours" so the subconscious mind won't take any ownership for it, and up on the shelf it will stay.

Brief

In order to capitalize on intraday opportunities, MyCompanyHere LLC seeks to dedicate a portion of risk capital for the purpose of daytrading the BTC/USD futures contract.

The purpose of this venture will be realized over stages:

Stage 1) Develop a system that provides a demonstrated edge and creates a positive expectancy

Stage 2) Build up the initial cash stake enough to support a 3 contract position

Stage 3) Create an *average* daily cash flow of \$250 from this division of my overall trading business

Trading Plan

The Trading Plan will be generated & maintained separately, but in general will be based around establishing fixed-risk positions around price levels, ranges, and trend on the intraday BTC/USD contract traded during the day.

Funding

Initial funding for this project will be established as a \$20,000 "virtual account" inside of my current futures-approved cash account. This creates approximately 2% risk per two-contract position with the estimated stop loss. Position sizing from that point will be dependent on organic growth of the account as described in the plan "stages."

Environment and Equipment

I will use my secondary 2x27 monitor PC (Chewbacca) to trade this system. I will trade with broker XYZ using their ladder, and will use my TradingView charts set to my primary/secondary workspaces. No additional capital funding for equipment and services is necessary for the rest of this year.

Education and Budgeting

I will budget a capital expenditure of \$1500 to add Market Profile knowledge/expertise to this venture. This can be a combination of static and recurring costs but needs to fit within the budget cap.

Stage One Trading

The key for stage one trading is to build the actual trading system. The whole point behind this stage is to create a trading plan that can be followed without exception, one that creates at least a 1.5 profit factor over a sample of 20 trailing trades from at least a sample of 50 entries. This stage will be traded using BitMEX testnet.

Stage Two Trading

The purpose of stage two is to grow the account to the point where I can trade three contracts. I will need to build the account capital to \$30k to move to Stage Three. Should the account capital move below \$18,000 I will move back to Stage One and diagnose the root cause of the negative performance.

Stage Three Trading

The purpose of stage three is to begin trading with three contracts and earn approximately 12.5 points per day while maintaining a minimum 1.5 profit factor. Should the account capital move below \$25,000 I will move back to Stage Two and diagnose the root cause of the negative performance.

Intraday Risk Management

I will practice risk management per the stop management defined in my trading plan. If I start the day's first trade positive, then I may continue to trade as long as each subsequent trade creates a positive return. I am DFD on the first losing trade at that point, or if I hit +30 points, whichever comes first.

Plan Maintenance

Every trade must be documented in Evernote via screenshot and quick performance recap showing direction and result of each contract. I will create a pareto analysis grid to track the adherence of each trade to the trading plan, with the point of identifying and correcting root issues. Once a week I will do a full performance review of the trades taken that week, identifying liabilities in my trading plan that do not match the current character of the market.

Disbursements

After I reach the \$30,000 level in Stage Three I will “sweep” accumulated profits into my bank account through a cash ACH, initiated on the last business day of each month.

Practice

By March 1 I will have in place a full “practice” facility to create after-hours trade scenarios using Ninjatrader, and I will dedicate at least 2 hours of screen time per week to practice the current trading plan setups.

Trading from Home

The first piece of advice that we'd give about trading from home is.... *don't do it*. Your family has that E*Trade/Hollywood vision of what trading is all about, well-honed after watching years of TV commercials, so if a trader can afford to hire Rick Derringer to play guitar in his office, why can't your wife pop into your trading office to ask a quick question? Why can't your husband wander in and ask about the checkbook?

Trust me, after years of experiencing this, your significant other will pick THE EXACT WRONG MOMENT to burst into your office and expect your undivided attention. You will undoubtedly whiff on the trade, and things will quickly go from bad to worse.

If you have the means, then our recommendation would be to find a quiet sublet office with good commercial power and adequate networking facilities. Many businesses that overbought office space during the real estate peak a few years ago would love to have part of their overhead cut, so your negotiating leverage is good. In this way you can leave your "job" behind at the end of the trading day, and become a family person again when you're home. The other benefits include actually getting out of the house on a daily basis, as professional trading can be a very solitary existence. Picking an office that's a few blocks or a mile away from home can also guarantee you some of the exercise that you need.

That's a Nice Idea, but....

OK, for most of you, making the leap to a full-time separate trading office is unrealistic and would very likely create additional financial pressures to your trading. Put that on your "Day in the Life" plan for next year, then.

If you do trade from home either part time or full time, then you absolutely MUST lay down the ground rules ahead of time for your privacy and respect for your work. Sit your family down and lay out the ground rules for when you can be interrupted or approached. This is a serious profession and it demands to be treated as such. You don't see Phil Mickelson's wife asking him questions during his backswing, nor do you see Meryl Streep's husband barge onto the movie set to ask her where she hid the remote control. Get this issue straight up front or pay for it later.

Environmental Science

One of the biggest reasons for avoiding the home-front for your trading office are the myriad distractions that it brings. The phone is ringing....*can you get that please?*...UPS is knocking on the door with a package....the baby is crying...you get the picture. Because you are home you are implicitly expected to chip in and attend to the everyday interruptions of life, where in a true office environment a door can be locked and a phone can be put on Do Not Disturb. Regardless of where your physical office is, you **MUST** manage your physical surroundings during the trading day or they will manage you and your results.

Inclusion

Families don't have to be your biggest challenge if you manage expectations appropriately up front. Remember, the only thing that most families understand about trading is what they learn from the TV commercials as well.

But there's another opportunity that you might want to undertake that can add a lot of depth to your relationships, as well as giving you a hand.

Ask for their help.

Earlier in my career when I was more focused on trading individual stocks, it would take me about an hour a week to develop a watchlist for my technical signals. To me it's tedious, uninteresting drudgery yet I had to do it. Once my oldest son took an interest in this pursuit, I drew him in by paying him a few bucks a week to do the research. Not only did he do an excellent job, but he took a real interest in finding the outcome of those trades.

Your family wants to help. They want to see you succeed.....they just don't understand what it is that you do, so sometimes the easiest way to kill two birds with one stone is to get them involved.

Your Trading Setup and Environment

Unless you have a seat at one of the Options exchanges, you're going to have to do your trading remotely, which these days means submitting orders and monitoring positions via a computer. Pretty easy, right? Just grab a PC and set it up in the corner of the living room, right? Instant trading office! Don't forget that this is a BUSINESS, so let's discuss some of the tools and issues to consider.

The Workstation

You've seen the setups, those ones out there with multiple big-screen flat panel monitors and systems with horsepower to burn. Due to the technical nature of trading to begin with, many traders love to let their nerd flag fly and think that the equation (more monitors = more profits) applies.

It does, but just to a point. Like everything in life, it depends.

If you are a swing trader that is using the daily charts, following just a few assets, then you can likely get by with a relatively simple system....perhaps even a decently-equipped laptop computer. On the other hand, those that are day-trading Forex or emini Futures will have far more intensive system requirements, necessitating faster computers, larger/more monitors, and faster network feeds. (Crypto futures are usually far less intensive on systems, as I write this) Let's break this down:

CPUs – always get the fastest processors that you can afford to stave off obsolescence. You should be able to get at least 3 years expected lifespan from your investment. Laptops will generally be more of a compromise than desktops, however they are obviously more portable so it depends on your requirements to be able to check positions while you are mobile.

Monitors – most laptop PCs now support a second external monitor, so the minimum configuration for even the most basic trading requirements should be two monitors. Price is dropping rapidly for flat panel displays so always get the biggest display size that you can afford, and that your video card will support.

Network – this will depend on your trading frequency; swing traders using a daily chart can probably get by with mobile broadband, while day traders will need a minimum of 1Mb/s download speeds based on terrestrial service. Satellite broadband service will only be usable for swing trades; the latency is too high for tick-based day trading. You should strive to get the best broadband service possible, dialup service will generally not suffice nor will it be reliable enough to run a business off of. For traders who have a choice of broadband access, running a redundant configuration can provide the ultimate in reliability since the time for your network provider to go dark will undoubtedly be while you are in a live trade.

Power – electric power is something that everyone takes for granted until it's gone, and then you notice just how much we run our lives and businesses off of commercial power. At a very MINIMUM you need to utilize an Uninterruptible Power Supply (UPS) that will keep your machines up through short “brownouts” that only last for seconds....yet will also keep them powered for upwards of an hour should power be lost entirely. UPS should be used to secure and back up all of your critical business functions and close any open trades, and not to continue placing capital at risk. Beyond the UPS capabilities, there are portable AC generators that can be employed, but are really better off for keeping vital functions of your house going, like the furnace, sump pumps, refrigerators, etc.

Disaster Recovery/Business Continuity

What will you do if you lose power for several hours? Lose the Internet for days? Lose vital utilities or even your building...how will your business survive? The time to think about these situations is NOW while you still have all of your facilities available to you. Disaster Recovery Planning (DRP) and Business Continuity Planning (BCP) are two extensive disciplines that are practiced by major consulting firms. You can get a head start on learning about this critical topic for your business by just Googling “BCP” and “DRP” and learning all that you can about it.

National and local disasters are things that we don't even want to think about – what would you do if a portion of the Internet went dark for a month after a cyber-attack? – yet now is the time to figure out how your trading business would improvise, adapt and overcome this setback.

If that task seems like a little bit much at this point in your business' development, then at least identify a viable coffee shop with wifi access that you can take your laptop to. This is exactly what I had to do after Hurricane Ike tore out my town's power infrastructure for an entire week in September 2008.

Move Around

I'm being blunt here, but if you don't get up and move around during the day, you'll end up being the shape of a Bartlett pear. And if your metabolism slows down, so will you. You won't have the energy and drive necessary to be 100% on top of your game against the best in the world.

Now I am NOT saying that you have to have the physique of a Michael Jordan but I think we can all agree that we feel better and act sharper when we're active, yes? Just some moderate activity is all you need to keep your edge. I make it a point every possible day that I can to get out at lunch or sometime in the afternoon when the Markets are slow, and at least walk a couple of miles. The change of scenery does wonders for your outlook, and lets you come back to your workstation renewed.

Now if you just cannot get away, the latest craze is to integrate a treadmill with your desk, so that you can walk and trade at the same time. I have heard of many stories about dramatic weight loss with this setup, so do whatever it takes to MOVE!



Financials

True businesses are results-oriented and so too should yours be. You must play above the board and be brutally honest with yourself and your **results**, otherwise this venture will just end up being a short sabbatical from the “working world.”

Results

Understand the basics of your trading business; what are your revenues, what are your expenses? Can you fill out a basic income statement showing profits and losses? Can you answer the question in simple terms, “are you making any money?” Your business itself should be run through its own regular Strategy Development cycle as you determine financial goals, set up rules, measure results, and then make corrections before the next cycle. Creating a monthly review cycle seems to make sense to most traders, even if you’re trading shorter-term setups. This gives you enough time to make adjustments and corrections before the next cycle.

Taxes

When I speak to traders about running their trading like a business, the very first questions that people start to ask are about taxes, deductions, and corporate structures created to avoid taxes. The first advice that we share with traders on this topic is to **go create a tax problem!** Be so successful in your trading that you need to find some expertise to help lessen your taxable burden. Don’t do it the other way around and set up all forms of corporate structures with cash flowing from one entity to another, quarterly “C” corp board meetings, etc...before you’ve really started to become a true professional trader. Focus on your prime objective! Create that tax problem first, and then secure some good professional assistance down the road when it becomes a good problem to solve. Focus on your primary goal!

Summary - Trader Business Plan

I hope that by now, you're beginning to realize how serious an undertaking it is to run your trading empire like a true business. You don't need an MBA, you don't need a staff, you just need the desire to improve. Nobody ever arrives at their destination without making a few course corrections, so plan on continuously improving through those corrections until you're seeing the results that you want.

And continuous improvement through corrections is NOT bouncing around from trading strategy to strategy as you go from trading Spot to selling puts to covered calls to vertical spreads. You'll have a consistent, disciplined approach to the Market, perhaps for the first time. Stay patient and keep building your disciplined mindset.

And yes....yes, I hear you...you with the full-time job. I know that some of the advice in this module might be overkill for you, however running your trading like a Business is imperative regardless of whether you spend 2 hours a week or 80 hours a week at it. Your competition is treating it like a business, so should you.

Homework and Next Steps

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

- ☐ Watch the associated video for this module.
- ☐ Create a Trader's Business Plan using the criteria listed at the beginning of this chapter. It doesn't have to be perfect, it just has to be something that you will USE to create and improve your business performance.
- ☐ Identify a portable or laptop computer that you can use, and scout out at least a few different coffee shops or libraries that offer free WiFi should your power/internet access go down.
- ☐ If you're not already on an exercise routine, identify opportunities during the day to get out and MOVE and put them on your calendar.
- ☐ Evaluate your workstation and computing tools; will they be up to the task for the next year? If not, integrate your goals for new hardware into your Business Plan.