

How to Trade Like a Business

Lesson # 4

A Professional and Disciplined Money Management Methodology

In previous lessons, we discussed the Profit Center Structure of a successful business organization. In this lesson, we define the components of a professional and disciplined money management methodology.

The following methodology provides the information required to trade confidently and profitably:

- Create a Business Organization which segregates trading performance into meaningful “businesslike” enterprises which reflect your trading methodology.
- Update the Business Organization with each day’s completed trades.
- Produce Analysis Reports which contain key money management statistics for the Business Organization.
- Use the Analysis Reports to :
 - Identify positive and negative expectation situations as well as their trend.
 - Capitalize on trading strengths and strive to eliminate trading weaknesses.
 - Establish and manage the Reward / Risk profile for new trades.
 - Utilize a professional and structured money management methodology to engender confidence, foster trading discipline, and increase the probability of achieving long term profitability.
 - Return to the second step (Update the Business Organization.....) and start the process over again.

For those of you who have any type of business experience, you will probably recognize that the above steps are performed by every successful business, whether it’s a large corporation or small “mom and pop” corner grocery store. In essence, our money management methodology is the framework for the operation and management of your trading activities as a successful business.

The above methodology organizes your trading results so that Analysis Reports can be created to answer important money management questions such as:

Which trading methods are profitable and which are unprofitable?

What are my trading strengths and what are my weaknesses?

What will be my Reward / Risk Profile for tomorrow's trading day?

What is my current drawdown situation?

Where am I becoming more profitable and where am I becoming less profitable?

Do I have an edge in any particular situation, and if so, is the edge increasing or decreasing?

How many contracts, lots, or shares should I trade tomorrow, and how many points should I risk on each trade?

What is my Trading Plan for tomorrow, and how does the Trading Plan compare with my past trading performance?

What is my breakeven profile?

The above questions are the same questions that confront every business manager on a daily basis, such as an auto manufacturer -- Which cars are selling and which cars are not? Which cars have the highest profit margin? Which have the lowest profit margin? Which cars are unprofitable? Which cars should I produce more of and which cars should I discontinue? What is the profitability trend? Am I becoming more profitable or less profitable?

Without a structured Business Organization designed to provide informative and practical Analysis Reports, it is impossible to answer these questions, and your business, whether it is selling cars, shoes, televisions -- or day trading the E Minis -- will suffer the consequences.

The above methodology also reveals where you have the edge and where you don't, where you have a positive expectation and where you don't, where you are playing as the customer and where you are playing as the casino -- and that will be the subject of our next lesson.

Tom D'Angelo
CEO ManusRisco Inc.

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