

How to Trade Like a Business

Lesson # 5

Positive and Negative Expectation Games

In the previous four lessons, we learned how to create a professional business structure designed to provide the information required in order to manage your trading the same way you would any successful business.

In this lesson, we discuss positive and negative expectation games. A positive expectation game is simply a situation in which you have the advantage, and which will result in long term profitability if played using a disciplined money management methodology.

A negative expectation game will result in the loss of all your trading capital in the long run. You may experience short periods of profit, but in the long run, you are guaranteed to go broke - regardless of whether you are gambling in Las Vegas or trading forex, stocks, or futures.

The difference between Las Vegas casino games and trading is that the casino advantage is "hard wired" into most of the games through unfavorable rules of payoffs, whereas the trader's advantage is constantly changing - a positive expectation situation may become more positive or less positive, or a negative expectation situation may become more negative or less negative.

The previous four lessons described the business structure required to organize your trading results and provide the information necessary to determine when, where, and why you have the advantage - or if you are playing at a disadvantage. If you do not organize your trading using proven business models, you will never be able to determine if you are playing as the customer or the casino.

There are many methods to determine if you have the advantage. One of the most popular is the Profit Factor. The Profit Factor is calculated as:

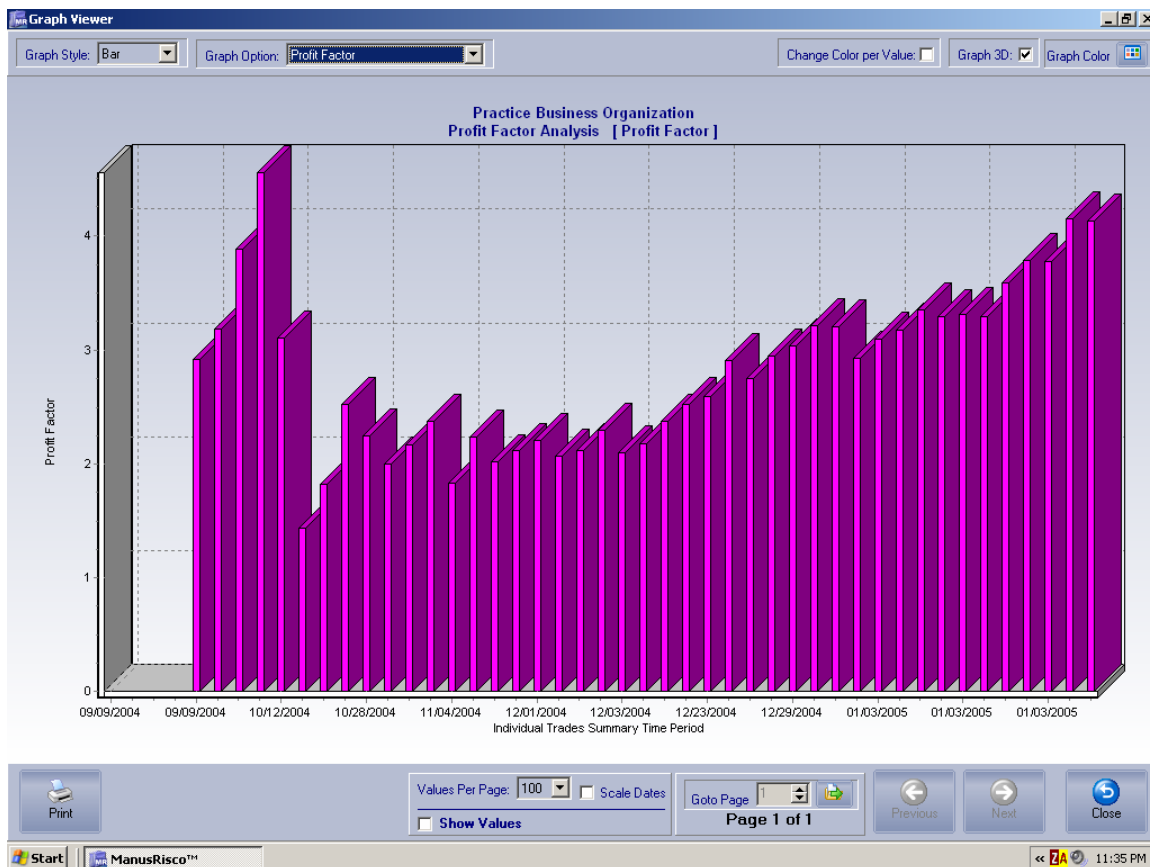
$$\frac{(\% \text{ Profitable Trades} \times \text{Average Profitable Trade})}{(\% \text{ Unprofitable Trades} \times \text{Average Unprofitable Trade})}$$

A Profit Factor greater than 1.00 indicates a profitable situation, and a Profit Factor less than 1.00 indicates an unprofitable situation. If the trader adopts the business model described in previous lessons, he can determine which Profit Centers are profitable and

which are not. More importantly, a graph of the Profit Factor reveals the trend - are you becoming more or less profitable, or are you becoming more or less unprofitable?

Are you playing as the customer or the casino? Where are your trading strengths which should be capitalized on, and where are your trading weaknesses which should be eliminated?

The image below displays a graph of the Profit Factor statistic created by ManusRisco which is greater than 1.0 and increasing. This is a positive expectation game which is becoming more positive. This is the type of game you should be playing.



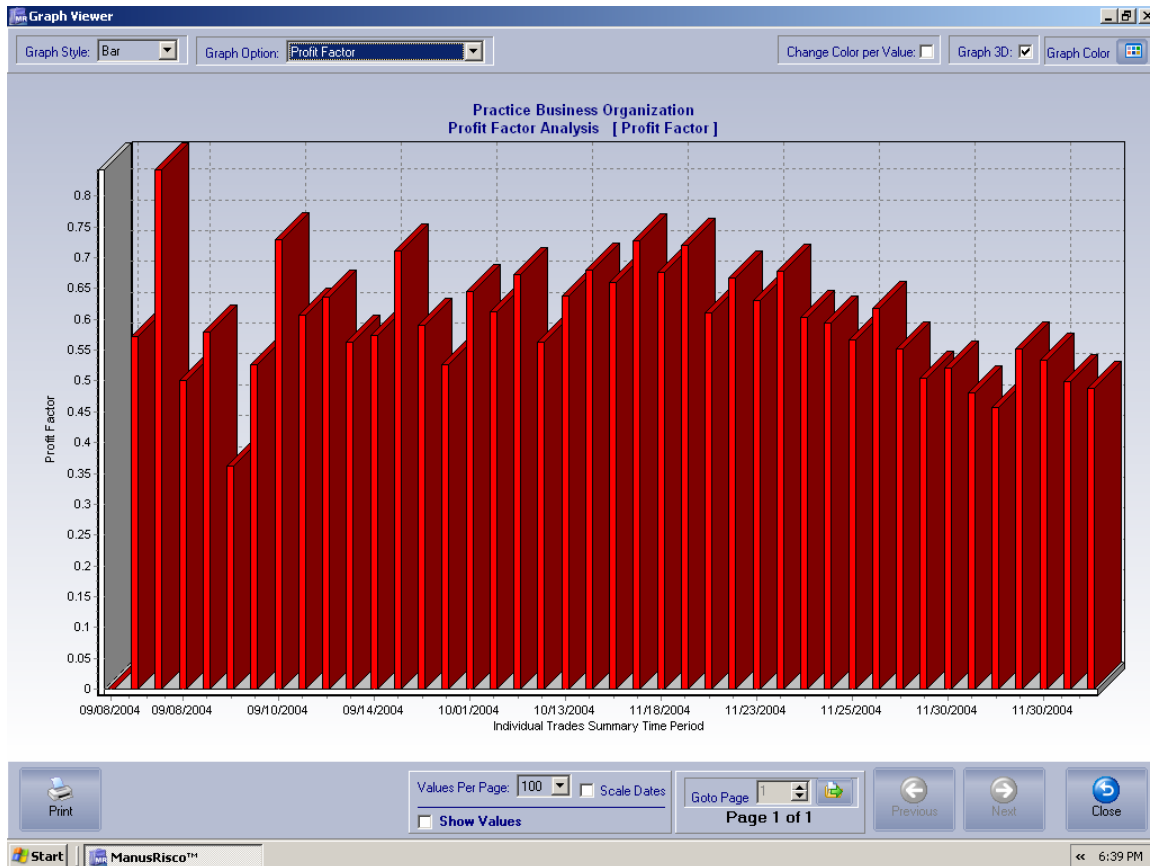
Recommended by Joe Ross & Trading Educators Inc.

<http://www.tradingeducators.com>

More lessons by ManusRisco available in PDF-Format at

<http://www.tradingeducators.com/resources/manusrisco.htm>

The next image displays a graph of the Profit Factor created by ManusRisco which is below 1.0 and decreasing. If you continue to play this game, you will definitely go broke.



Only the information provided by a suitably designed business structure can provide the answers. If you trade in a haphazard non-businesslike environment, do you think you can intelligently and profitably manage your trading business? Do you think the lack of a professional business approach to trading is the primary reason for the tremendously high failure rate of individuals who decide to play the trading game?

A properly designed business structure is the foundation for producing the Analysis Reports that management (that is, you) requires to make the critical operating (trading) decisions necessary to successfully compete in the marketplace.

Recommended by Joe Ross & Trading Educators Inc.

<http://www.tradingeducators.com>

More lessons by ManusRisco available in PDF-Format at

<http://www.tradingeducators.com/resources/manusrisco.htm>

One of the most important Analysis Reports which can be produced from our business structure is the Drawdown report. Every trader should have a complete drawdown history at his fingertips at the beginning of each trading day. And what should the Drawdown report contain? Well, that's the subject of our next lesson.

Tom D'Angelo
CEO
ManusRisco Inc



Book Tip:

Trading the Ross Hook



In Trading the Ross Hook you will learn exactly what Ross hooks are. You see their origins and what causes them to occur. You are shown step-by-step how to identify them, and how to filter them so that you trade only the best hooks. You see how to manage Ross Hook trades, how to manage risk, and how to manage your money when you trade these very lucrative market formations.

You are shown, chapter after chapter, and example after example, how Joe Ross' students are successfully trading Ross hooks using simple studies that can be found in most trading software packages. Then you see how he personally trades hooks, using chart reading, without technical indicators or technical analysis of any kind.

This full blown course contains 24 chapters and is profusely illustrated with over 200 graphic examples. Trading the Ross Hook has become a classic in the field of commodity trading. Click here to learn more: http://tradingeducators.com/trading_the_ross_hook.htm

Recommended by Joe Ross & Trading Educators Inc.
<http://www.tradingeducators.com>

More lessons by ManusRisco available in PDF-Format at
<http://www.tradingeducators.com/resources/manusrisco.htm>