

How to Trade Like a Business

Lesson # 6

Drawdown

In previous lessons, we learned the basics of creating a disciplined money management methodology, organizing our trading results using proven business models, and the importance of playing only positive expectation games.

Our Profit Center structure organizes our trading results into manageable businesses, and we are now able to create the Analysis Reports which are necessary to make confident and educated trading decisions.

In this lesson, we discuss drawdown, which is one of the most important reports produced by our business organization. Drawdown is defined as a decrease from a previous equity high. For example, if you start off with \$10,000, and make three winning trades for a total of \$1,000, equity has reached a new equity high of \$11,000. If your next trade loses \$500, you are in a \$500 drawdown, and you will continue in drawdown until the previous equity high of \$11,000 is surpassed.

Most traders, even very profitable ones, will be surprised to learn that they are in a drawdown at least 70% of the time. Drawdown is both financially and psychologically destructive. And to compound the problem, many traders do not have the business structure designed to provide the information required to reduce the fear and anxiety produced by drawdown.

If trading results are not organized in a structured, businesslike environment, the trader is left in the dark as to when, where, why and how much drawdown is occurring. And the lack of information creates the fear of the unknown, which causes many of the psychological problems traders must confront on a daily basis.

As discussed in Lesson #3, a properly designed business structure can organize trading results to provide the information necessary to produce informative and practical Analysis Reports such as the Drawdown Report.

A properly designed Drawdown Report should contain the following information:

% of Time at New Equity High
% of Time in Drawdown

Current % Drawdown
Worst % Drawdown
Average % Drawdown

Current \$ Drawdown
Worst \$ Drawdown
Average \$ Drawdown

Current \$ Profit / Current \$ Drawdown
Current \$ Profit / Worst \$ Drawdown
Current \$ Profit / Average \$ Drawdown

\$ Difference Between Worst \$ Drawdown and Current \$ Drawdown

The first screenshot below, created by ManusRisco, displays a Drawdown Report on a trade-by-trade basis. The second screenshot, created by ManusRisco, displays the Summary Page of the Drawdown Report, which summarizes all the important statistics described above.

Report Viewer

Zoom Presets Custom Zoom Custom Zoom [%] 91 Page Color

Practice Individual Trades Drawdown Analysis

ALL Trade Dates

Trade Date	Symbol	Pos	# Traded	\$ P/L	Cum \$ P/L	Equity	\$ DD	% DD	Cum \$P/L / \$ DD
Beginning Trading Capital						\$ 13,000			
09/08/2004	ES	Buy	2	(\$ 318)	(\$ 318)	\$ 12,682	(\$ 318)	(2.5 %)	
09/08/2004	ES	Buy	2	\$ 182	(\$ 136)	\$ 12,864	(\$ 136)	(1.1 %)	
09/08/2004	ES	Buy	2	\$ 82	(\$ 54)	\$ 12,946	(\$ 54)	(0.4 %)	
09/08/2004	ES	Sell	1	(\$ 209)	(\$ 263)	\$ 12,737	(\$ 263)	(2.1 %)	
09/08/2004	ES	Buy	1	\$ 41	(\$ 222)	\$ 12,778	(\$ 222)	(1.7 %)	
09/08/2004	ES	Buy	2	(\$ 318)	(\$ 540)	\$ 12,460	(\$ 540)	(4.3 %)	
09/08/2004	ES	Buy	1	\$ 141	(\$ 399)	\$ 12,601	(\$ 399)	(3.2 %)	
09/08/2004	ES	Buy	1	\$ 191	(\$ 208)	\$ 12,792	(\$ 208)	(1.6 %)	
09/08/2004	ES	Buy	1	(\$ 209)	(\$ 417)	\$ 12,583	(\$ 417)	(3.3 %)	
09/08/2004	ES	Buy	1	\$ 91	(\$ 326)	\$ 12,674	(\$ 326)	(2.6 %)	
09/08/2004	ES	Sell	1	(\$ 209)	(\$ 535)	\$ 12,465	(\$ 535)	(4.3 %)	
09/08/2004	ES	Buy	3	(\$ 252)	(\$ 787)	\$ 12,213	(\$ 787)	(6.4 %)	
09/08/2004	ES	Buy	1	\$ 91	(\$ 696)	\$ 12,304	(\$ 696)	(5.7 %)	
09/08/2004	ES	Buy	1	\$ 91	(\$ 605)	\$ 12,395	(\$ 605)	(4.9 %)	
09/08/2004	ES	Sell	2	\$ 182	(\$ 423)	\$ 12,577	(\$ 423)	(3.4 %)	
09/08/2004	ES	Buy	1	(\$ 109)	(\$ 532)	\$ 12,468	(\$ 532)	(4.3 %)	
09/09/2004	ES	Buy	1	\$ 141	(\$ 391)	\$ 12,609	(\$ 391)	(3.1 %)	
09/09/2004	ES	Buy	2	\$ 382	(\$ 9)	\$ 12,991	(\$ 9)	(0.1 %)	
09/09/2004	ES	Sell	1	\$ 141	\$ 132	\$ 13,132	\$ 0		
09/09/2004	ES	Buy	1	\$ 91	\$ 223	\$ 13,223	\$ 0		
09/09/2004	ES	Buy	1	(\$ 259)	(\$ 36)	\$ 12,964	(\$ 259)	(2.0 %)	
09/10/2004	ES	Buy	1	\$ 91	\$ 55	\$ 13,055	(\$ 168)	(1.3 %)	0.3
09/10/2004	ES	Buy	1	\$ 191	\$ 246	\$ 13,246	\$ 0		
09/10/2004	ES	Buy	1	\$ 66	\$ 312	\$ 13,312	\$ 0		
09/10/2004	ES	Buy	1	\$ 141	\$ 453	\$ 13,453	\$ 0		
09/10/2004	ES	Buy	1	(\$ 109)	\$ 344	\$ 13,344	(\$ 109)	(0.8 %)	3.2
09/10/2004	ES	Sell	2	(\$ 293)	\$ 51	\$ 13,051	(\$ 402)	(3.1 %)	0.1
09/10/2004	ES	Sell	1	\$ 41	\$ 92	\$ 13,092	(\$ 361)	(2.8 %)	0.3
09/10/2004	ES	Sell	1	\$ 104	\$ 196	\$ 13,196	(\$ 257)	(1.9 %)	0.8
09/10/2004	ES	Buy	1	(\$ 59)	\$ 137	\$ 13,137	(\$ 316)	(2.4 %)	0.4
09/10/2004	ES	Buy	1	\$ 128	\$ 265	\$ 13,265	(\$ 188)	(1.4 %)	1.4
09/10/2004	ES	Sell	1	(\$ 96)	\$ 169	\$ 13,169	(\$ 284)	(2.2 %)	0.6

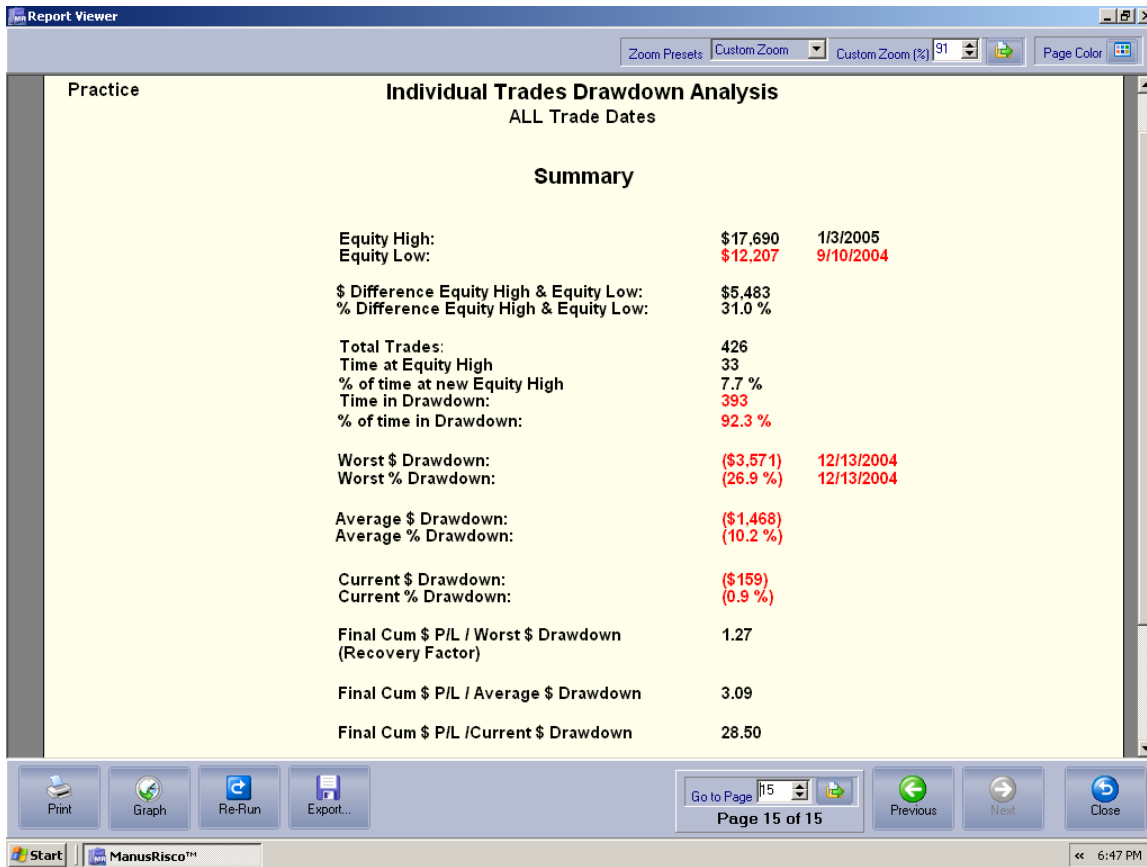
Print Graph Re-Run Export...

Go to Page 2 Page 2 of 15 Previous Next Close

Start ManusRisco™ 6:46 PM

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 trader who has taken the time to organize his trading business using the techniques described in previous Lessons will be able to create a Drawdown Report for any combination of Profit Center, Symbol, and # Traded.

For example, a Drawdown Report for the Breakout Profit Center, ES Symbol, and # Traded where the trade was for more than 2 contracts.

The trader now has the information which significantly reduces the fear and anxiety produced by trying to trade in the dark. He knows if he is currently in a drawdown and by how much, how much worse the drawdown can get compared with his historical performance, and how much profit he has to "cover" his average, current, and worst drawdowns.

The trader who attempts to beat the trading game without the information provided by an informative business structure will not know where he was, where he is, or how to get to where he would like to go.

Information produces knowledge, which creates confidence, which leads to a professional approach towards the trading game.

Another benefit of trading in a business environment is the ability to determine your percentage return on Trading Capital for profitable and unprofitable trades, which is one of the most important factors which will determine your eventual success or failure in the trading arena. That will be subject of our next lesson.

Tom D'Angelo
CEO
ManusRisco Inc



Investment Advice

WEALTH—SECRETS—RICHES—EASY MONEY!

YOU'VE HEARD IT ALL. IS IT TRUE?

Dear Investor,

You've been hyped enough! You've heard all the blather by the some of the best marketers in the world. This letter is **NOT that**, so read on.

My name is Joe Ross. I've been trading and investing most of my life. I started when I was 14, and today I am 70 years old. For years people have asked me to produce an investment advisory, but I just didn't have the time. Things have changed—as they usually do!

If investing in safe, cash-rich, high dividend-paying companies having steady growth and great market potential are what you are looking for, then you will love my stock advisory. I call it "Joe's Confidential Stocks," and for good reason. Not everyone can have it, and not everyone can afford it. Subscriptions are limited, and the price is \$750/year. If this isn't for you, there's no need to read any further.

STEADY PROFITS-GOOD GROWTH-HIGH YIELD

This is what I want for myself—is it what you want from your investments? If you want high turnover, in-and-out trading, growth, growth, growth, then simply buy and sell Microsoft and trade it every day, or buy it and hold it forever—it will grow—almost for sure. Joe's Confidential is nothing like that at all. I don't have time to sit in front of a screen all day watching the market, do you?

I have made it a life-long practice to invest my winnings from trading in the futures and options markets into solid companies when they are undervalued. I also invest in companies that pay high dividends. But I also want growth, so I invest in companies that are cash rich, and good prospects either for a buyout or are in position to buy out their competition.

All in all, by investing prudently, carefully, and for great potential, I have done well in good times and bad times—done well when stocks were rising and also when they

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>

were falling. However, I can't let everyone in on what I do because if too many do it, what I do may stop working. I'm not after a subscription list of tens of thousands of subscribers. Many of the companies I invest in simply cannot handle the volume of shares it would take if thousands of people made the same investment at the same time. I don't want my own subscribers driving the price up when I decide to buy, and I won't buy until my recommendations are in your hands for at least 24 hours.

WHY AM I WILLING TO DO THIS?

For a number of years I wrote an economic and financial letter called "The Tunnel." I stopped because it took too much effort at the time, and I was busy trading. Nevertheless, my subscribers constantly asked me to offer them an investment advisory. I am finally getting around to it. But I will severely limit the number of subscribers, you can count on that.

If making money steadily and wisely is for you, I hope you will become one of my subscribers. If you are looking for fast riches, please don't take up one of the valuable subscriber slots only to quit in a few months because you want more action.

BALANCE AND QUALITY

Joe's Confidential Stocks maintains a balanced portfolio. It is designed to do well in good times and bad. However, it does have its ups and downs. When you purchase a company for high dividends, you don't expect its stock price to do wonders. It may even fall, but we don't care because we are holding it for the dividend and we know that eventually the price will come back again—we buy good companies. When we buy a company because it is undervalued, we know that it may take time for us to realize the profit potential of that company. Once again, the price may fall, but in the long run we anticipate making a lot of money when we purchase such companies.

At best the stock market is fickle. It is fickle because people who invest in it and trade in it are emotional. We do massive and extensive research into the companies we recommend in Joe's Confidential Stocks. We are not worried about the ultimate outcome of our recommendations, so we are not emotional about them. We know that the best way to make money in stocks is to invest carefully and slowly. But we hold on to the good ones and dump any bad ones because, in the end, we are not perfect.

If we have to take a loss, we keep it as small as possible. But keep in mind, very often when the price of a stock we think is a real winner falls, we buy more and will tell you to do the same. It is the investor who buys good companies when they are bargains who come out on top.

I think I've said enough. If you want more detail, you can go to our homepage to sign up for my advisory.

<http://stock-confidential.com>

But don't wait to long—initial enrollment is strictly limited.

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>