

## Trading as a Business

Aside from what many people believe, trading does not need to be so complicated and expensive to set up.

Depending on what your trading goals are, it is these that will determine how complex your set up needs to be. Regardless if you are trading full or part time, you really need to treat your trading like you would any other business.

- You need to be serious and not treat it like a casino,
- You need to document all functions,
- You need to have systems and procedures that you always follow,
- You also need to regularly review these for efficiency,
- You need to back up all data,
- You need a contingency plan,
- All monies need to be accounted for.

## Systems

When deciding upon a trading set up, the most important factor is that it fits with your overall financial and lifestyle goals.

It is funny to hear a novice trader say they are leaving their full time employment to start 'Day Trading', and that they are going to set up a huge 'Trading Room' with 'Dual Screens' – when in fact they could be a more effective trader trading the longer term trends of the market – checking in on their positions once a day or even as little, as once a week.

Plus they don't need to outlay thousands of dollars on high-tech equipment when they can be very effective with a single laptop.

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Every novice trader should start with a laptop/desktop and at minimum 'End of Day' checking of their positions, simply because they may find after a few months that the financial markets are just not for them.

Also if a trader cannot be consistently successful over the longer time frames then they certainly will not be successful either Day Trading or Intra-Day Trading.

Once you have some experience under your belt, you may decide to step into the Day Trading or



Intra-Day Trading arenas. Only then, after some intra-day or day trading testing with a Demo account, and some experience with real money, you may decide to go down the line of a professional trading set up which includes dual and/or larger screens.

The reason that you need dual screens for Intra-Day or Day Trading is because the view of a 5 minute chart or even a 60 minute chart is so zoomed in and magnified that you can lose sight of the overall

picture.

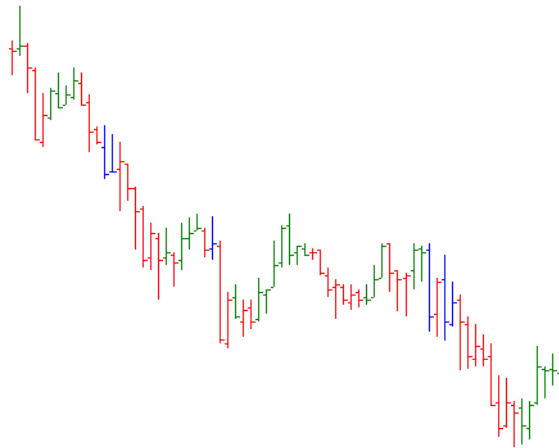
Looking at this 15 minute chart below in isolation, looks as though the market is in a bull run (upward).



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But standing back and looking from a bird's eye view at the weekly chart, you can see that this up trend all of a sudden is actually in a longer term down trend.



And exactly why a trader needs two or more screens so that they can simultaneously watch the “bigger picture” as they trade.

Otherwise it would be very easy for them to miss significant information, such as longer term resistance or support levels that the market may be approaching. Watching a shorter time frame only, you would be oblivious to these.

## Tidy Records

Keeping on top of your records is just as important as if you were in any other type of business. Don't think “it will be alright, I'll get to it later”, as most often important details can be lost from memory if not logged straight away.

Most Brokers will provide you with regular account statements detailing all results of your Buys and Sells, and any fees/brokerage/interest paid or received. At the end of the financial year ask your Broker for a statement that summarises all this information that you can pass it on to your taxation accountant.

You may choose to transfer your trading results into a standalone Portfolio Manager software, but it is a good idea to ensure there is a good reason why you are doing it and you aren't just doing this for the sake of doing it.

Double handling or duplicating information will just create a laborious situation, which may not be necessary.

## **Taxation**

Depending on the country and state that you reside, will determine the treatment of the taxation on trading and investing in the financial markets.

So you will need to find out from your accountant what you will be eligible to claim.

Taxable items will generally be things like your;

- laptop,
- desktop,
- data feeds,
- internet connection,
- educational courses,
- educational magazine subscriptions,
- books,
- electricity,
- stationary,
- charting software,
- brokerage, interest and fees.

So it is important to keep all your receipts as proof of purchase and filed away safely.

## **Trading Diary**

As boring and monotonous as it may sound, it is important that you keep a diary on all of your trades. This diary is more of a record around your thoughts, feelings and emotions at the time of each trade.

Within this diary you don't need to worry about documenting your entry and exit prices and final results as those will be in your Account statements and/or your Portfolio Manager Software.

Creating the opportunity to 'reflect' upon your emotional state; pre, during and post every trade, is invaluable.

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Obviously you need to ensure you can marry up these document emotions up with the individual trade details should you ever need to delve further. This can be done simply with the date and final results of the trade.

For Example:

Trade Date	Notes	Final Trade Results
10/1/06	<p>PRE: My first trade, I am quite nervous. I have checked all components to my trading plan – all signals are pointing to enter the trade.</p> <p>DURING: The trade has immediately gone against me. I am feeling very anxious that I may have missed something. I have revisited all rules – all seems to be correct.</p> <p>POST: My entry stop loss was hit. I was not expecting a loss. But happy I used a Stop Loss so that I did not lose any more money as the market continued to fall. I feel a little deflated by the experience.</p>	Final Results: -5%
13/1/06	<p>PRE: I have received new signals to enter the market. Again I have cross check all information, I feel that I must have made some sort of mistake last time and I don't want to experience that again.</p> <p>DURING: The trade has taken off in the right direction, I feel on top of the world. I can't help but tell others about the fast money I have made. I have even started planning what I will spend the money on.</p> <p>POST: I feel great, and a whole new confidence has been instilled into me. I anxiously want to get back into the market as soon as possible.</p>	Final Result: +45%

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The majority of our mistakes made in trading are when our decisions are based upon emotions. So documenting what emotions you are feeling as time progresses will enable you to look back and analyse 'hindsight' correctly.

It is quite easy to forget the array of emotions that you will feel throughout all phases of a trade. Reflecting on these emotions will allow you to be able to identify your weaknesses, and either turn them into strengths or find a process to ensure you are not adversely affected by them. You may need to source external assistance in these weaker areas.

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## Q&A – Questions

### QUESTION & ANSWER SECTION

		Answers
<b>Question 1:</b>	A trader should choose a trading style that complements their lifestyle and financial goals. True or False?	
<b>Question 2:</b>	Day and intra-day trading can be much more expensive to set up. True or False?	
<b>Question 3:</b>	A novice trader should check their charts a maximum of E___ of Day.	
<b>Question 4:</b>	Dual screens assist a trader to see the b_____ p_____.	
<b>Question 5:</b>	Traders do not need to bother keeping tidy records like normal businesses do. True or False?	
<b>Question 6:</b>	As a trader are your trading costs likely to be tax deductible?	
<b>Question 7:</b>	Traders need to keep a personal diary that documents their e_____ in addition to their Account Statements.	
<b>Question 8:</b>	Traders can then 'reflect' upon their feelings, pre, during and post their trades. True or False?	
<b>Question 9:</b>	This allows traders to also identify their w_____.	
<b>Question 10:</b>	Should trading be treated as serious as any other business?	

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## Q&A – Answers

### QUESTION & ANSWER SECTION

		Answers
<b>Question 1:</b>	A trader should choose a trading style that complements their lifestyle and financial goals. True or False?	True
<b>Question 2:</b>	Day and intra-day trading can be much more expensive to set up. True or False?	True
<b>Question 3:</b>	A novice trader should check their charts a maximum of E___ of Day.	End
<b>Question 4:</b>	Dual screens assist a trader to see the b_____ p_____.	Bigger Picture
<b>Question 5:</b>	Traders do not need to bother keeping tidy records like normal businesses do. True or False?	False
<b>Question 6:</b>	As a trader are your trading costs likely to be tax deductible?	Yes
<b>Question 7:</b>	Traders need to keep a personal diary that documents their e_____ in addition to their Account Statements.	Emotions
<b>Question 8:</b>	Traders can then 'reflect' upon their feelings, pre, during and post their trades. True or False?	True
<b>Question 9:</b>	This allows traders to also identify their w_____.	Weaknesses
<b>Question 10:</b>	Should trading be treated as serious as any other business?	Yes