

PandaWarrior Family Hedge Fund.

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Preface

I've written my trading plan in the context of a business. The PandaWarrior Family Hedge Fund because that's what it is. A hedge fund for which I am the CEO, Senior Market Researcher and Senior Trader.

In these roles, I must make decisions each day that affect the long and short term profitability of my business. The direct results of these decisions affect my family immediately. Therefore I must make the best decisions possible and with the best information possible. I must always act in my own best interest for each area of the plan.

Operational Hours

Crude Oil trades during the day from 6AM Arizona time until 11:30AM Arizona time.

Therefore my trading day starts at 5:30AM to prepare charts from the Globex session, put trendlines in, review Higher Time Frames (HTF), and review news headlines from around the world.

I will trade the entire session if necessary but Ray from IDT indicated that his income would have increased exponentially if he had restricted his trading to the first 2-3 hours of the session. Therefore as much as possible, I will trade seriously the first 2-3 hours and the remainder will be traded lightly if at all. The only real exception to this is the case of a very slow and narrow early session. In this circumstance, the later session is generally much better.

Mechanics

Mechanics are the type of orders used, trailing stops, etc.

I usually use a stop market order to enter 95% of the time. I want the market to take me into the trade with its momentum.

I occasionally use a limit order if I want to enter at a specific level based on support or resistance.

All orders are entered with an automatic OCO to place the initial stop and target. These are adjusted as needed.

My time frame is a 250 Tick Chart with a 5M chart for a slightly higher time frame supplemented by a daily chart and a 30M Chart

I have two methods for exit. Scale out at 1X and 2X risk. Or all in all out at 1X risk. Under the scale out method, I move my stop to BE once 1XR has filled. Under the all in all out method, I move stop to break even once price has gone 75% of risk. (This section is being revised)

Equity Trail Stop

As it is can be extremely easy to make money in the morning and give it back later in the session, I have implemented a trail stop on my equity.

This means that as I approach my daily profit objective, I begin tightening up my equity trail stop.

My initial stop is 30% and as I approach and exceed the profit objective, I will reduce to 20% and then 15%.

Days Off and No Trade Days.

There are 240 work days in the year; however I do not anticipate trading all of these days. The days I know for certain I will not be trading are:

1. All days market is closed
2. Day after Thanksgiving
3. Period between Christmas and New Years
4. Quad witching days – optional
5. Any personal vacation days of which I intend for there to many of these eventually.

I anticipate trading about 200 days a year.

Trading Style

I define my trading style as an intra- day swing trader. In other words, I do not consider myself a scalper of 2-4 ticks at a time. Instead my targets are 25-50 ticks since CL gives 2-5 swings per day of 50 or more ticks.

I want to take advantage of these kinds of swings if possible.

My charts and trading tools are designed to give me these kinds of signals instead of scalping opportunities.

Risk

I have a US\$1000 daily stop loss. I must size my positions to allow myself between 3-6 trading attempts with a full stop out before I am stopped out.

My risk per trade should be no more than 20-25 ticks per trade. I will discuss actual position sizing later on in the section on trading strategies.

A secondary component to risk is having a draw down plan. Once trading live, and having built my account to the place where this will matter, my plan for controlling uncontrolled draw down is simple. Using the starting balance at the beginning of the month, at anytime I experience a drawdown of 8%, I will stop trading that month. Upon resumption of trading the following month, my new draw down max is now 6%. If I hit that, then the following month, its 4% and so on.

Using that formula, a trader can experience 6 months in a row of draw down and still have 75% of the high point total still available for trading.

This formula forces a trader to trade smaller and smaller while in a draw down period.

Core Disciplines and Principals

This is just a list of items I believe are important and try to observe daily.

1. Always do market prep.
2. Never chase a trade
3. If I can't figure out what the market is doing, don't trade.
4. Don't trade sick, tired, angry or hungry.
5. No revenge or "make up my losers" trading. If a loser happens, just accept and move on.
6. Take frequent breaks. A tired and fatigued body houses a tired and fatigued mind which translates into poor trading. Always take a 15-20 min after a large winner.
7. KISS.....decision fatigue results in poor trading.
8. Assume I am wrong on every trade until proven correct by the market.

Performance Goals and Metrics

While there are many things that qualify as a performance goal or metric, these are the ones I have chosen to monitor.

1. Average winner greater than average losing trade
2. Win rate greater than 45%
3. 2 consecutive losers equals a minimum 5 min break.
4. Commission control: Keep commissions less than 20% of net profit. This is one I have just started looking at so this figure can and probably will change.
5. Daily profit objective. I want to average US\$500-1500 per day.

Risk Reward Ratio (RRR)

Risk is dynamic. It changes constantly. A strict Risk Reward Ratio (RRR) is static only once. At the point a known risk is determined for an entry point and a expected reward is identified. RRR will change once the trade is live. An RRR can go from 5:1 to 0:1 instantly. So RRR is static only once. It is the responsibility of the trader to manage this RRR as the trade progresses.

However, I believe a trade should have at least a 1:1 potential to be considered.

Edge

My edge exists in a few main areas.

1. My ability to wait.
2. My ability to identify potential turning points in the market
3. Ability to identify potential continuation points of existing trends.
4. Ability to determine reasonable and repeatable targets before the trade is initiated.

This ability is enabled by using simple and repeatable tools and it's proven by only trading when the tools demonstrate a trade is developing. All other times I should be either SOH or managing an existing trade.

The tools give me a portion of the edge. My skill in using them is another part of the edge and will increase as I become more skilled at using them. The last part of the edge comes from waiting until the tools identify a potential trade.

Trading Strategies

Trend

All the world tells you to trade with the trend. There exists a million ways to determine the trend and how to trade it. I have tried most of them. Over the years, I have come to believe that simpler is better. I use a single EMA along with visible HH/HL combinations to determine a trend.

Range

Range is often put in after a climax bar or move. It can also be signaled by the opening 5 minutes. More on this in the tools section.

Trading range has always been an issue with me. I have spent my entire trading career trying to learn to trade the trend. Never mind the fact that range is about 60-70% of the movement of a day's price. But lately I have been working on trying to find ways to trade these ranges. Going forward I will be looking at trading these very carefully using single lots, tight stops and narrow targets....basically scalping while I learn to trade this type of market better.

I'll be using the big pink box....essentially a hand drawn box around a range...using limit orders, I will enter a tick or two ahead of the extreme edges of the range...I will try to add upon the close of a bar that closes in my direction unless that bar extends into the middle of the range. I will look to take the 1st position off around the opposite of the range with a stop BE+middle of range with the second position held as a possible runner with a stop at BE+1.

The entries should represent 100% pull backs in a range.

Ranges will require two touches to confirm a range exists.

Generally speaking however, I will refrain from trading ranges as it is really outside me comfort zone and skill level.

Tools

My tools consist of Ninja Trader for charting and execution.

Charts:

1. My primary chart is a 250 Tick Chart with a 5M chart for a slightly higher time frame view.
2. Daily
3. 30M/15M chart for higher time frame reference.
4. Opening range indicator. I use this to determine bullish vs bearish sentiment along with possible trend vs. range environments. The opening range also offers reliable support and resistance later in the day.
5. Dynamic fib levels. These are fibs off the high and low of the day and adjust automatically as these levels change. They provide context of where price is in relation to the days range as well as larger S/R levels.
6. Hand drawn trend lines. Used to determine potential turning points and used in conjunction with the other tools, provides a high degree of confidence in placing a trade. I like my trend lines to intersect the Moving Averages.
7. Horizontal trend lines. Used to define levels from HTF as well as short term S/R to determine actual entry locations.
8. Moving averages. I currently have a 21 EMA. I use it as a visual context of past price action as well as possible re-entry locations or places to add to an existing position.
9. Journal. I maintain a paper and pen journal, a marked up chart and a spreadsheet to document each trade.
10. Market based dynamic targeting system. This basically means I look for targets based on S/R.
11. Automated News Feed from Forex Factory.

Market States

I have three market states I've identified.

Trending. Transitional. Consolidating.

My indicators do a very good job identifying market states. They are good but not perfect. I rely heavily on them to frame the state but also rely on manual tools as well to pinpoint these states.

Trending markets are defined as a series of higher highs and higher lows or a series of lower lows and lower highs. Bars rarely overlap and if they do, it's less than 50%. Price tends to respect levels that many traders watch like a 20EMA or trend lines as well as previous breakout levels. Measured moves are frequent enabling a trader to enter with a fair degree of confidence.

Transitional market is at the end of a trend. It is characterized by having a trends higher high/higher lows swings broken. It is an attempt to reverse the current trend direction without a period of consolidation. Bars may over lap somewhat as buyers and sellers exit positions and establish new ones.

Consolidation normally occurs following a climax bar of an initial impulse move from previous consolidation. It is usually a trend continuation event while prices build a base of support to continue the trend. However, consolidation can fail and reversal of trend can occur. I believe it is more advantageous to trade in the trend direction at the bottom of consolidation. Bars frequent overlap by 50% or more and there are frequent false break out signals. A common occurrence is price oscillating around a moving average. However, I am not good at trading this type of market so I typically refrain from trading after a major move and big climax bar.

IDT

I took the IDT course last year. I learned several things from Ray. One of the best was to identify market states and have a trading plan for all of them. Secondly was approach the market with humility, compassion, courage, integrity and respect; all traits to be desired in all areas of life.

Ray also had us find role models for various aspects of life. I chose the following.

Family and Friends

Dad, for his willingness to do whatever it took to provide and to make sure his kids had a good education.

Rick, for his discipline, steadfastness and faithfulness to his family, his God and for his leadership

Lois Mae, for her ability to love unconditionally, her wisdom and kindness

Arts and Entertainment

Steven Spielberg, for his creativity.

Tom Hanks, for his commitment to excellence.

Steven Tyler for his willingness to lay it all on the line to perform for his fans.

Sports

Marcus Allen for his humility

Joe Montana for his never quit attitude

Herschel Walker for his work ethic

Leaders

Ronald Regan for his communication skills

Steve Jobs for his focus and insistence on excellence in design

Sam Walton for his single minded pursuit of efficiency as a driver of lower prices.

Out of these traits, I built a composite role model and something I'd like to emulate in my trading. I am becoming a disciplined, consistent, confident and patient trader....I've nicked named him "The Grinder". Someone that simply grinds out a daily income from the market using simple and time tested tools without chasing the latest fad and committing to what works over time.

Appendix