

MTG Trading Plan

1 Objective

To consistently make 1 point of profit per day (net after commissions), through a combination of intraday and multi-day "swing" trading of exchange traded funds (ETFs). Based on the average share size determined below and account equity of \$100,000, this translates to a net profit of approximately \$300 per day on winning days, with the ability to let some days grow beyond that based on proper money management. I want to be profitable on 80% of the trading days, which correlates to an average of one losing day per trading week. Losses on losing days will not be larger than my average profitable day. Under no circumstances should losses ever exceed 2% of account equity in any given day. Overall, each week should average a net profit of \$900. Here is a summary of my profit objectives: **80% x 5 trading days = 4 profitable days x \$300 = \$1,200 - \$300 (one losing day) = \$900 net per week**

2 Trade share size management

a Maximum trade share size

Average trade share size is based on the Morpheus Trading Group Position Sizing Model, which takes into account factors such as price of the ETF, volatility (beta), strategy (swing or intraday), futures action, and account equity. Multiplier ratios listed in MTG Position Sizing Model are adjusted based on account equity, with largest single trade being equal to no more than 25% of account equity. Based on this, my benchmark average position size for SPY is 300 shares, with all other ETF position sizes adjusted accordingly. Maximum trade share size must allow a risk for the trade, based on the stop loss, of no more than 0.5% of account equity. Here is an example of how to determine maximum position size:

100k account x 0.5% max. loss = \$500 max. loss per trade. \$500 / 0.50 stop = 1000 share maximum for a trade with a half-point stop

b Plan to increase trade share size with successful trades

In general, share size is only increased with trades that are already "in the money." With rare exception do I average on a losing position. Position size on a winning position is increased incrementally, with no single trade (or trade combination of the same sector) ever exceeding more than 25% of total buying power. I will add no more than 50% of my original position size upon the trade becoming more than one point "in the money." An additional 50% of the original position size is added upon the trade becoming two or more points "in the money."

3 Profit and loss limits

a Maximum account draw downs

Stop trading for the day if net loss exceeds 2% of account size. My top priority must always be to live to see the next day in the business.
Stop trading for one week if account draw down reaches 10%. Take time to review trades and assess my current psychology.
Stop trading the account indefinitely if account draw down ever reaches 35% (kickout). Something is definitely wrong if this happens!

b Maximum loss for a trade

Set trade share size and stop loss so that maximum loss for an intraday trade does not typically exceed 0.5% of account equity.
Set trade share size and stop loss so that maximum loss for a swing trade does not typically exceed 1% of account equity.

c Profit point at which I guarantee myself a breakeven day

When a realized plus unrealized intraday trading profit of 0.5% of total account equity is reached: Stop trading and exit trades if profit drops back to zero.

d Daily profit target, and what to do when it is reached

When a realized plus unrealized intraday trading profit of 1% of account equity is reached: Stop trading and exit trades if profit drops back to 0.5%.
When a realized plus unrealized intraday trading profit of 2% of account equity is reached: Stop trading and exit trades if profit drops back to 1%.
When a realized plus unrealized intraday trading profit of 4% of account equity is reached: Reduce position size by 75% on any new trades and use trailing stops on existing trades.

4 Trade Strategies

a Times of day that limit trading

9:30 Market opens
9:35 Initiate trades on fade candidates (only if large imbalance in futures)
9:50 Beginning of first reversal period
10:10 Trading session 1 begins
11:30 Trading session 1 ends. Lunchtime doldrums begin. Don't initiate any new trades. Carefully watch existing positions.
13:00 Review plays from morning session. Scan markets for afternoon plays and changes.
13:30 Lunchtime doldrums end. Trading session 2 begins.
14:15 Trading session 2 ends. Prepare for 14:30 reversal period.
14:30 Strong reversal periods often occur here. Begin trading session 3.
15:30 Start to close on intraday trades and end session 3. Adjust positions for overnight by looking for good entry points.
16:00 Market closes

b Types of allowable trades (setups)

General trading style is determined by whether or not market is trending or trading sideways for the day. If market is trending, I will trade broad-based index ETFs such as SPY, DIA, and QQQ. However, if market is trading sideways, I select ETFs that are exhibiting strength or weakness relative to the S&P or Nasdaq Futures. This is done through sector trading the HOLDERS family of ETFs. General concept is to be short the sector ETFs with the most relative weakness and long those with the most relative strength. This enables me to minimize risk and increase profitability through diversification and being hedged on both sides of the market. Specific trade types are as follows:

Buy ETFs that have broken out of consolidation patterns at the highs on the daily chart. Upon breaking out and then pulling back down to breakout level several days later, I look for an entry. These make great swing trades with minimal risk. Stops will generally be slightly below the consolidation level. 50% of profit will be taken upon testing the former highs of the breakout, with a trailing stop on the second half of the position

Sell short ETFs that have broken down below consolidation patterns at the lows on the daily chart. Upon breaking down and then rallying back up to breakdown level several days later, I look for an entry. These make great swing trades with minimal risk. Stops will generally be slightly above the consolidation level. 50% of profit will be taken upon testing the former lows of the breakdown with a trailing stop on the second half of the position

Sell short ETFs that are in a downtrend on the daily chart upon rallying into the upper channel of the downtrend line. However, it is important to wait for confirmation of the reversal first. This will generally take the form of some sort of reversal candle such as a doji star or inverted hammer.

Buy ETFs that are in an uptrend on the daily chart upon selling off down to the lower channel of the uptrend line. However, it is important to wait for confirmation of the reversal first. Typically I am looking for some sort of reversal candlestick such as a doji star or hammer.

Buy ETFs that have broken above the upper channel of the downtrend line on a daily chart. Upon breaking the downtrend line, I wait for confirmation of the continuation of the breakout by waiting for a retest of the upper channel of the downtrend. The only time I will play the breakout is if there is some sort of confirmation candlestick with the breakout.

Sell short ETFs that have broken below the lower channel of the uptrend line on a daily chart. Upon breaking support of the uptrend line, I wait for confirmation of the continuation of the breakdown by waiting for a retest of the lower channel of the uptrend before entering a position. The only time I will play the breakdown is if there is some sort of confirmation candlestick with the breakdown.

Moving averages play a key role in my trading plan, as they indicate the general direction of the market's trend. I use 20, 40, and 200-period simple moving averages on various timeframes including 5, 15, and 60 minute intraday charts. Crossovers indicate potential trend reversals.

5 Record Keeping

- It is important to carefully track the performance of each of the above trade types. As I notice that certain trade types are no longer working well, I will be dynamic in adjusting the style to the market conditions because the markets are always very dynamic. New types of trades will only be initiated with minimal share size and precise record-keeping.
- Upon the close of each trading day, I will complete my equity curve data in order to track performance. Performance measured is performance gained (see Equity Curve spreadsheet)
- Each night, my technical research will produce a list of potential long and short plays for the next trading day. This will be structured by sector and will yield target entry prices. Trades are selected from the list of ETFs that MTG trades on a daily basis.

6 Ongoing Training

a Books

I realize the importance of reading at least one different trading book per month, as it keeps me focused with precision on the task at hand. Books to continually re-read are:
Trading For A Living by Dr. Alexander Elder

Reminiscences of a Stock Operator by Edwin LeFevre

The Long-Term Day Trader by Michael Sincere and Deron Wagner (to keep me focused on the things I already know)

How I Made \$2 Million In the Stock Market by Nicolas Darvas

7 Trading Rules

(see tab entitled "Trading Rules")

