Twitter Thread by Nikita Poojary



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7 effective trading journal tools that you can use to make better decisions (instead of just maintaining a trading journal):■

Collaborated with @AdityaTodmal

@AdityaTodmal Lets start with the harsh truth.

80% of traders just maintain a trading journal and never evaluate.

Recording your trades on day-to-day basis is just maintaining a trade book which your broker can furnish anytime.

Hence this exercise of recording trades is simply futile.

@AdityaTodmal Things to record in the Trading Journal:

1.Long/ Short
2. Symbol
3. Qty
4. Buy Date
5. Buy price
6. Sell Date
7. Sell price
8. Profit/Loss
9. SL
10. % of cap risked
11.RoI %
12.RoCE %
13.Days held
14.R/R
15.Set up used

@AdityaTodmal Once all the records are in place you need to build an analytics tool.

Trade records on its own is just the raw data which needs to be processed to derive info out of it.

Record your 50 or 100 trades.

@AdityaTodmal Thereafter, analyse the following:

1. No. of wins
2. No. of Losses
3. % of winning trades (No. of wins/Total trades)
4. Avg gain %
5. Avg loss %
6. Gain to Loss ratio (4./5.)
7. Reward to Risk ratio
8. Open Risk

@AdityaTodmal 1. No. of wins:

If you have taken 50 trades in total of which let say 20 were in your favour then the no. of wins is 20 trades on 50.

@AdityaTodmal 2. No. of losses:

Considering the above example the no. of losses = 50-20 =30 trades.

@AdityaTodmal 3. % of winning trades:

Simply divide the no. of winning trades divided by total trades.
i.e. 20/50 = 40%.

This is also known as the batting average (Reference drawn from @markminervini books).

@AdityaTodmal @markminervini 4. Avg gain %:

If your capital is 10lacs, you make 20k out of it from one trade the % gain is 20k/10lacs i.e. 2% gain

Now take average of all the % gains out of your 50 trades

@AdityaTodmal @markminervini 5. Avg Loss %:

If your capital is 10lacs, you lost 10k out of it from one trade the % loss is 10k/10lacs i.e. 1% loss

Now take average of all the % losses out of your 50 trades

@AdityaTodmal @markminervini 6. Gain to Loss ratio:

Simply divide Avg gain % to Avg loss %

Lets say you average gain works out to 15% and average loss works out to 5% then the Gain to Loss ratio is : 15/5 = 3:1

But it doesn't take into consideration the batting average

@AdityaTodmal @markminervini 7. Reward to Risk ratio:

Lets say you have a 40% winning ratio, and you avg gain % is 15% and avg loss % is 5%

Then the Reward/ Risk ratio = 40*15/ 60*5 =2:1

Reference: Think and Trade Like a Champion book by @markminervini (A must read)

Don't Become an "Involuntary Investor"

Investors hate to admit mistakes, so they rationalize. Amateurs fluctuate from a being a "trader" when they're right and "investor" when they are wrong. When what started out as a "trade" moves against them and starts to rack up a loss, all of a sudden they're a long-term investor. They become what Jesse Livermore called an "involuntary investor," a person who harvests a bitter crop of small profits and large losses, the exact opposite of what you want to achieve.

No one can know for sure that a stock will decline only a certain amount and then move higher. How can you tell when a 10 or 15 percent pullback is the beginning of a 50 or 60 percent decline, or worse? You can't! If you had known that your stock was going to drop, would you have bought it in the first place? Of course not!

On average, over time you will likely be correct on only 50 percent of your purchases. The best traders may pick winning stocks about 60 or 70 percent of the time in a healthy market. In fact, you can be correct on 50 percent of your stock selections and still enjoy huge success, but only if you keep your losses in check and avoid becoming an involuntary investor. You can make money by picking winning stocks only one time out of two or even three trades, but only if you sell your losers before they inflict an insurmountable toll on your account.

You must avoid rationalization, coming up with reasons and justification for why you should hold onto a losing trade. **You should always determine, in advance, the price at which you set your stop-loss. Then write it down, put it on a Post-it, and program your computer to send you an alert when that price is reached**. You can even put in a stop order with your broker that will automatically trigger when your price target is hit. The main thing is that you cut your loss immediately, without any vacillation.

Afterward, as you examine your trading results, you might decide to make some adjustments for your *next* trade. Maybe you are being stopped out too frequently because your stops are too tight. Or, your losses may be too large because your stop-losses are not tight enough. You shouldn't need to let a stock decline so far as to cause big damage before you know

@AdityaTodmal @markminervini Now using the above logic, first find your winning ratio and then determine what should be the ideal gain/loss ratio which will help you to have a better Reward to Risk ratio.

@AdityaTodmal @markminervini 8. Open Risk:

Check all the open positions with reference to SL.

However there's an overnight risk in case the stock/index opens with a gap.

Reduce your positions or use hedge mechanisms such that your open risk is at your comfortable levels i.e. usually between 2-5%.

@AdityaTodmal @markminervini And that's it!

The next time you record your trades on the trading journal try to analyse on the above 8 points.

Be creative and you can compute the winning %, gain to loss ratio and Reward to risk ratio for specific systems as well.

@AdityaTodmal @markminervini Ultimately you can use these analytics to see where you failed and why you failed and try to rectify or eliminate those issues.

Bet more on the system that works for you.

@AdityaTodmal @markminervini If you enjoyed this thread here's another one which might be helpful:

https://t.co/cHJAv8xvXY

> 7 POWERFUL PERSONAL FINANCIAL HACKS that you wish you knew yesterday.
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> THREAD: Thumb rules that will make you better in managing your personal finance.
>
> Collaborated with @AdityaTodmal
>
> — Nikita Poojary (@niki_poojary) May 14, 2022

@AdityaTodmal @markminervini Hope you discovered something new (because that's the point!)

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