THE 12 POWERS *of* SUCCESSFUL TRADING

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Back in the late '90s, during the ramping up of the dot-com boom, I had the great opportunity of backpacking through Western Europe right when the new and revolutionary proliferation of internet cafés began cropping up all over the place. I would land in a particular city and before even checking into my lodgings, I would be logging into my online trading account to manage my trades.

I had already been trading for several years with a lot of ups and downs, successes and failures. I had already lived through the best trade of my life and the worst trade of my life, though at the time I hadn't fully realized it yet nor had I even given it any thought. I have stories about both trading experiences on our blog, backpacktrader.com. All I knew at the time was that I was loving this newfound level of freedom. Being able to come and go, stay put, leave, turn left when five minutes before I had planned on turning right, etc. Nothing felt more empowering than being able to log into my account with a nice strong freshly brewed cup of coffee in some strange place I had never been to before. Best of all was the feeling I had watching the balance of my account continue to grow with each passing day.

What I did not know at the time, however, apart from the freedom I was experiencing, was that during that historic time in the markets, anyone who could have fogged a mirror would have been able to grow their trading account. That fact was lost on me until a year or so later when the Dot-com Boom had become the dot-com bust—which I actually survived, by the way. Many did not, however. Thus the word bust!

It would be a few years before I discovered many of the ingredients required for consistenttrading success. There were a number of pivotal steppingstones, each one progressing to the next, that set me on the proper path and basically changed my life. From over 13 years of calling a successful live trade room, to creating a number of highly effective, top-selling trading strategies, training regimens, countless winning tradeplans, webinars, live group training sessions, one-on-one mentoring, large in-person presentations and training sessions, as well as becoming a trading coach, helping countless traders over the years, I can say that the same themes continue to emerge, themes that indicate why a trader is struggling or how and why they are succeeding.

This report sums it all up, reducing all this priceless information down to what I am calling the 12 Powers of Successful Trading.

As you proceed through this report, I want you to think about your own trading as it relates to the things you try to control while trading. The first step to turning the corner and getting on the consistent winning track is to realize that which we **CAN** control and that which we **CANNOT** control (the Power of Surrender). Learn to turn your attention away from what you have no control over and instead focus like a laser beam on what you do have control over.

All of these 12 powers are things we have **POWER** and **CONTROL** over as traders. By learning how to focus and control each, we can stack the odds in our favor and be in the absolute best position for ongoing success as traders. It is necessary, though, to not just nod your head yes because you intellectually understand the good sense that is being described, and then move on, forgetting to actually implement the power in your trading.

Actions speak louder than words, and to really enact change for yourself, you have to take ownership of the power and then remain vigilant and judge yourself by the things you actually do, not what you say and think. That will separate the winners from those who think they want it, but really don't.

It all flows down from the first power. The strategy is designed to apply each of the subsequent powers to the benefit of the first and most important power, **WHY** we are trading in the first place. To make money! For that reason, our overall strategy goal is "to be able to quit with a positive result a vast majority of the time, while controlling our drawdowns with minimal and efficient trading as defined in our tradeplans." It takes all 12 powers working in concert to be able to accomplish this overriding goal. The rewards, though, are astronomical and lifechanging, the theme of which is what our blog, backpacktrader.com, is all about. Absolute freedom! It's **WHY** we trade.

THE 12 POWERS OF SUCCESSFUL TRADING

1. The Power of Why

- Most important power
- All your actions
- Markets will give you what you're asking for
- One reason and one reason only: to make money
- Next question is how? Answer: the odds you get from your proven tradeplan (see #6)

2. The Power of the Tradeplan

- Most important power
- All your actions
- Markets will give you what you're asking for

3. The Power of a Strong Trader Foundation

- Belief
- The good, the bad, the ugly, the great, rinse and repeat

4. The Power of Quitting

- Take what the market wants to give you

5. The Power of Compounding

- Work smarter, not harder

6. The Power of Numbers

- It's all about the odds
- Put the house odds on your side
- No holy grail, no pot of gold at the end of the rainbow
- Wins and losses will come in a random distribution
- Small risk as a ratio to your capital
- Let your odds do the heavy lifting

7. The Power of Structure

- Each trade is on the chart
- Its own self-contained tradeplan
- Easy to see and act upon

8. The Power of Dynamic Setups

- Self-adjusts to market conditions
- Evergreen strategy

9. The Power of Surrender

- Acknowledge what you cannot control
- Surrender to what you can't control, focus on what you can control

10. The Power of Mechanical Rules

- Keeps your trading objective
- Removes you from the equation

11. The Power of Lifestyle

- Find your personal style of trading
- Decide the lifestyle you want to live and then fit your trading to it

12. The Power of CEO

- You are the master of your own destiny
- Don't be some "guy or gal" trying to trade. Be the CEO of your trading business!

1. THE POWER OF WHY

Let's start with a very basic question: What is success in day trading? In the early stages of working with a trader, as a coach and mentor, I ask them what winning or losing means to them. I ask them to imagine a current or recent trade and to imagine that the trade loses.

What does that mean? Does that make them a losing trader?

Then I ask them to imagine that the trade wins. Are they now a winning trader? It is such a simple exercise to imagine both of those situations, and yet, when the typical day trader makes trades, they never stop to think about the basic question of what it means to win or to lose. When you think of a trade and ask those questions, it quickly makes you realize that there is much more to winning or losing as a trader. It is never about one or two trades.

We are traders. We trade. That is what we do. There is always another day, another setup, another trade. One trade does not define anything.

Yet the effects of a single trade can really cause havoc for the unaware trader and make them react by doing things that are very destructive to the long-term health of their trading account. What, then, defines a successful trader? When do you know you have "arrived"? After 100 trades? 1,000 trades? 20 years of trading? Think about it. This simple thought process will help put things in perspective so you can begin doing the work necessary to achieve your financial goals from trading. More important, ask why. This is where it all begins.

Why trade?

If you do not know why you are day trading, you are not setting yourself up for success. Most people don't really think about it or know why they are day trading. Most traders either haven't given this critical question any thought or they are confused by it. They think they know why they are trading, but their actions suggest that they really do not.

The only reason to day trade is to make money.

Commit to your reasons for trading and then do the things that will help you achieve your goal: to make money. Do nothing else. Learn to operate from a higher point of view and make sure your actions are consistent with your objective. This is your singular and only reason for trading in the markets.

2. THE POWER OF THE TRADEPLAN

The proven tradeplan is how we make money and grow equity. It begins with backtesting, which is a critical step to prove that an approach can make money due to the statistical advantage, or edge, that it provides.

> [DEFINITION]
> *Backtesting is the study of past data, charts, and a specific set of rules to determine if a trading style or approach can deliver steady profits. When done right, the backtest yields a record of trades that give us measurable results from which we build our tradeplan.*

Once we establish that the backtest results are adequate to assist in our only reason for trading (making money), we then practice the plan, logging our trades in a spreadsheet. This process (in contrast to a backtest) is called a forward test. It's great when we can prove that a plan would have worked in the past. That's a very important first step. The forward test helps confirm that the tradeplan is working in a live trading environment.

- Fast-testing is an exploratory phase in the tradeplan process to see if a strategy is worthwhile enough to do a full backtest.
- Backtesting is the study of past data and charts to determine if a trading style or approach can deliver acceptable, measurable results.
- Forward testing is the ongoing testing of your tradeplan on the right edge of the chart, going forward as the markets unfold.

The tradeplan itself establishes a specific way for us to trade, with exact rules to follow from start to finish that we can duplicate repeatedly. It should be practiced until it can be executed perfectly each and every time, without error. The plan should be written in a journal or notebook and include all the details regarding the methodology, types of trades, and rules that were thoroughly tested and proven.

3. THE POWER OF A STRONG TRADER FOUNDATION

Have you ever noticed that great athletes, regardless of their chosen sport, share defining characteristics?

Confidence is one of them.

Confidence is essential when trading as well, and it is not something that just happens. It rests on a foundation that is built through preproduction work. In other words, the point of preproduction work is to build a foundation of belief. Mathematically, we want to create a win/loss column of trades, following a specific set of tradeplan rules, so that it is possible to see the random distribution of wins and losses.

With a solid tradeplan, we can experience the losses but still witness the equity curve rise. This is when serious transformation finally begins to take place. These are often light-bulb moments, epiphanies that come from actually understanding what it means to make money as a trader

The Power of Foundation refers to achieving absolute belief in your trading approach. Forward testing is one of the critical ingredients that builds a foundation. It is the process of seeing results from actual trades that were executed based on tradeplan rules. If the tradeplan truly has an edge, the random distribution of wins and losses will continue to grow the equity in the account, thus reinforcing the belief that the tradeplan will accomplish one's reason for trading.

In other words, there can be no belief in the tradeplan without backtesting and forward testing. Testing is how belief is built. Despite the insecurities that one feels from losing trades, the successful tradeplan sees money coming in, growing the account, and achieving the reason for trading. If one's real reason for trading is to make money, the way to achieve that is from the edge that one's tradeplan gives.

4. THE POWER OF QUITTING

Greedy traders usually run into trouble. After a big win, they want to leverage the profits into an even bigger win. They don't know when to quit.

Overtrading, even after a few nice wins, can result in even more pain than an initial loss right out of the gate. There is nothing more frustrating than making a nice profit and then giving it all back because you didn't know when to stop. Setting goals can help day traders make better decisions while avoiding common pitfalls.

The Power of Quitting is a dynamic goal-setting strategy that can help you grow your equity, minimize drawdowns, and inject a degree of discipline into your trading that will help you perfect your edge.

When we day trade it makes sense to have a specific family of targets established for each trade—targets 1, 2, 3, etc. The most straightforward and common application of the Power of Quitting dictates that once we reach our full target objective (typically Target 2) and we have a net positive result for the trading session, then we quit for the day.

It is, of course, possible that we reach our full target objective on our first trade of the day. Great, we're done. Let's go to the beach.

But what if our first trade loses? Then we move on and take the next trade. And what if that trade loses? Then we take the next one.

The point is that we want to avoid quitting out of discouragement and missing out on the winning trade that could be just around the corner. We want to quit on our own terms, in accordance with our own plan. What if the second trade wins, but the profits are not enough to offset the first loss and create a positive outcome for the day? Then we take another trade. On the other hand, if the second trade hits the full target and brings us into positive territory for the day, then our objective has been met and we quit.

5. THE POWER OF COMPOUNDING

Small things can grow exponentially and become gigantic. Consider a snowball rolling slowly down a mountain slope; it gathers momentum and gets bigger and bigger. Small things can snowball and deliver big results over time.

A day trader who is coachable and determined to succeed can begin with a relatively modest amount of capital. Through the implementation of successful trading plans, this same trader will build equity over time. Day traders are not paid interest (although some brokers do pay interest on cash held in accounts), and day traders essentially control the speed of their own cycles. Rather than relying on the passage of time, as investors and loan holders do, day traders rely on their ability to cultivate winning tradeplans.

As a trading plan achieves positive measurable results, position sizes can be increased, thanks to the profits that are generated over time. And those same measurable results can be obtained again via the next round of successful trading. As the trader matures, as his equity curve grows, as he becomes ever more proficient at crafting winning, provable tradeplans, he will wield with increasing comfort ever larger sums of capital, thereby providing opportunities for larger and larger gains.

The early stages of a trading career are like a jumbo jet trying to take flight.

It begins slowly and experiences a few bumps as it gathers momentum. It might bounce a bit, higher and lower, before getting airborne. Then, the jet is in the air, gradually gaining altitude. “Gradually” gives way to “rapidly” as the rate of growth increases, faster and faster, as the account grows larger and larger. A trader’s equity curve can look like the gradual lift of a jumbo jet, but at a certain point—thanks to the Power of Compounding—it can take off like a rocket.

This is made possible by increasing position sizes of trades and turning a modest trading account into a massive one that grows exponentially. That is the power of compounding.

6. THE POWER OF NUMBERS

A casino makes money because it has a statistical edge.

Sure, it might pay out large amounts to lucky winners from time to time, but the individual gambler does not have favorable odds. The house always wins in the end. Successful day trading is a pure numbers game and is all about the odds. We cannot control which trade will win or which one will lose. We can only develop a tradeplan that has an evident statistical advantage and, like the casino, stack all the odds in our favor.

Wins and losses come in random distributions and cannot be one hundred percent predicted trade by trade. What we can do is predict that we will win more often than we will lose.

That is our edge. That's where our money is made as traders.

A random distribution is a set of numbers that are statistically random. For instance, a coin toss is random. We cannot control whether it will land on heads or tails, but, over time, it should land on heads 50% of the time and tails 50% of the time. However, we do not know where it will land next, even if it has landed on heads 30 consecutive times. In day trading, we want to let the statistical edge of our tradeplan do the heavy lifting. That's what I mean by the Power of Numbers—a system that has been backtested and has demonstrated positive measurable results has the best chance of being profitable when moved from a simulated situation to a real trading environment. However, the plan must be allowed enough time (number of trades) to let the probabilities play out.

Just as a casino does not close its doors if a few people win jackpots, the day trader does not quit a winning tradeplan when it suffers a losing streak.

7. THE POWER OF STRUCTURE

The Power of Structure deals with the nuts and bolts of the tradeplan being structured in such a way that the whole trade—the entire structure of the trade—prints right on the chart, leaving no guesswork.

It takes the strategy, the tradeplan, the mechanical rules, and the dynamic setups and displays all of that on the right edge of the chart, just when a trade sets up and it is time for you to execute it. You can see the entire structure of the trade in the "Trade Profile" graphics in chapter 10: entry, stop, targets, and even the trailing stop, once the trade progresses. And if you use one of the charting platforms that we recommend, you will also get a data window that you can put in a convenient place that shows you all the specific numbers of each trade.

8. THE POWER OF DYNAMIC SETUPS

An effective trading strategy must also be able to adjust to market conditions. Setups that can tune themselves, no matter the chart or time frame, are dynamic and have a better chance of surviving over time.

Consider a truck driver, we'll call her Trisha. She makes her living driving a big rig. She was not interested in going to college, but she learned somewhere along her journey how to just go with the flow. It would be silly and unproductive for her to sit there and honk her horn all day when she's in a traffic jam. She knows that she is stuck, and it is beyond her control to do anything about it, other than resign herself to the reality of the situation. Her job has instilled in her certain characteristics that could make her a successful trader:

» She goes with the flow and changes her route based on traffic or weather.
» She is not married to one point of view or perspective.
» She can change course on a moment's notice but still arrives at her destination on time.

Dynamic strategies go with the flow and are typically based on pure price action and, as a result, can better stack the odds in your favor. I often find that when my results veer outside of what I expect, it is not the strategy that needs to be changed. It is usually just a period of time when the strategy is a bit out of sync with the market—like when a smartphone camera's autofocus gets a little bit unfocused. After a brief time, it can refocus itself. This will happen sometimes even with the best dynamic strategies. Be very slow to make changes. If you have proven your plan works with enough testing, then the odds are extraordinarily good that it will get back into sync and the winners will again come pouring in. It doesn't hurt to explore additional charts with different time frames to see if you might find something more effective.

9. THE POWER OF SURRENDER

Drawdowns are inevitable in day trading. A drawdown occurs when the account dips in value due to a series of losing trades. It represents a dent in the equity curve. Of course, nobody wants to experience a drawdown, but since equity curves do not move in a straight line, periods of losing trades and drawdowns are bound to happen.

We can't win one hundred percent of the time.

In fact, it's common for strong winning tradeplans to be in drawdown more often than not, sometimes as much as 80% of the time. Think about that for a moment. It may seem discouraging to be in drawdown 80% of the time, but in my mind it's actually very exciting, because if you are in drawdown 80% of the time, on average, then you are necessarily hitting new equity highs (when your total account balance grows to a new high) 20% of the time (or two out of every 10 trades).

> [DEFINITION]
> *A drawdown refers to how much an investment or trading account is down from the peak before it recovers back to the peak.*

If you knew that you essentially had a money-making machine, how would that affect your trading decisions?

If you knew that with two out of every 10 trades you were going to grow your trading account to all new equity highs, would that affect your ability to believe in and execute the tradeplan correctly and per the objective proven rules?

If you think about it, anytime a trade is not pushing your account value to all-new high levels, the account is in drawdown. Continuing with that thought, if it were even possible to win one hundred percent of your trades, then trading would quickly be made illegal by the governing authorities. No government is going to give someone a license to print free money. That is a fantasy, and yet so many would-be traders freak out with each losing trade.

Why?

The fact that there is risk in trading, something we all know about, implies that some trades will lose. Remember, there are losing trades inside of winning tradeplans. It is not the drawdown (which you cannot control) that is important, but how you deal with it (one of the many things you can control).

10. THE POWER OF MECHANICAL RULES

I know a trader who, believe it or not, does not fully understand the strategy he is using. But nevertheless, he consistently makes profits. Is he making a mistake? I would say, no way!

I would be very hesitant to try to teach him how to use the strategy the correct way, because I wouldn't want to break his money-making style and method. It is not the strategy's way of doing things, but it is his way. He has a method, a setup, that is succeeding with a high level of consistency. In fact, he is a regular in my live trade room, and I am constantly telling him to cover his ears when I introduce a new concept. I do not want to persuade him to change anything he is doing.

His methods are working.

The point is that you do not always need to know why something is working. That's what's great about mechanical rules, which have specific entry and exit points that are known in advance. There is no guesswork. You deploy mechanical rules on a trial basis and subject them to backtests and forward tests to confirm that the system has an edge.

Once confirmed, the set of rules is established and will govern your trading decisions going forward. We want to remove ourselves from the tradeplan as much as possible, because humans make terrible traders.

Mechanical rules help separate us from the tradeplan by making the decisions for us.

The idea behind mechanical rules is to remain disciplined and execute the tradeplan from a position where we are focusing on things we can control and not on things we cannot control. It helps us stay objective, taking advantage of the statistical edge in the market that we have identified through our preproduction work, thus realizing our reason for trading in the first place. The Power of Mechanical Rules forces us to lean on the strategy and rules of the tradeplan.

The idea is to follow the rules, stay objective, and remove the human element from the decision-making process. It also allows us to focus on the execution of the strategies to master the trading platform, eliminate costly mistakes, and perfect the ability to flawlessly place trades.

Rules that can and should be tested:

» Start time
» End time
» Strategies (based on rules)
» Dynamic session goals (outlined in the Power of Quitting)
» Maximum number of trades
» Targets, stops, and entries based on your strategy

11. THE POWER OF LIFESTYLE

I backpacked around Western Europe for several months in the 1990s during the dot-com boom. It was a time when internet cafés were cropping up all over major European cities. When I arrived in a new city, I would usually log in to my trading account at one of these cafés before checking into my hotel. I had been trading for several years with a lot of ups and downs, but I was enjoying it. I was really loving this new freedom I had while traveling: coming and going as I pleased, turning left when five minutes earlier I had turned right, and choosing the times of day that suited me for trading (these were primarily swing trades at the time).

Nothing was more satisfying than sitting down in a café in a place I had never been before with a cup of freshly brewed European coffee. Best of all, I was able to watch my account grow as I journeyed. Traveling across Europe and trading in cafés taught me to focus my trading on the hours of the day that worked best for me.

The fact is, I want to trade as little as possible.

That doesn't mean I don't want to work, because developing a tradeplan does involve work. But after I have my plan up and running, I want to be in the markets as little as possible. Ideally, I want to trade only a few minutes per day. It is up to you to find a personal style of trading that works for you and to factor realistic and personally suitable trading times into your tradeplan.

For example, if you do not want to watch the market all day, it is probably better not to create a plan that focuses on slower-moving charts like 15- or 30-minute bars. I prefer tradeplans that require minimal time in the markets. The Power of Lifestyle also means you need to balance your personal needs with your trading needs.

For example, do not count on using profits from your day trading as a source of income to pay things like electric bills or a monthly mortgage, when you are first starting out. If you depend on your trading profits to pay bills, you will probably stray from the tradeplan, pull equity from the account at the wrong times, and put yourself under too much stress.

Do not put your personal needs over your trading needs.

Most inexperienced traders do this, and it will never work. Always put the needs of your trading first. That is, follow your proven tradeplan regardless of whether you need to pay your electric bill or not. I realize this is easier said than done and is something that each person needs to figure out. If you put the needs of your trading first, you have a good chance of crossing over the line to consistent profits, and then, when you've mastered the 12 Powers, your trading will reach a point when it can take care of your personal needs. That is the big irony here. Put your trading first and your personal needs second.

Like any business, it takes time to ramp up and become profitable.

12. THE POWER OF CEO

You are the master of your own destiny. You have heard that before, but have you really thought about it in the context of a day trading business?

Once you have achieved successful backtests, you move on to the next steps, with the goal of eventually trading real money. Once you have success in a small account, you can reproduce the results in larger amounts.

Thanks to the Power of Compounding, there is no limit to how much equity you can build. There is no limit to the size of your forest. As you fly above it like an eagle, you are the CEO of your day trading business. Yet, most people who try day trading eventually quit.

Why?

The fact is, we are wired to fail at day trading because of our survival instincts. Taking losses is painful, and if it happens repeatedly, it is human nature to turn tail and run. One thing that has helped me—and countless other traders I have worked with—is to pay close attention to the overall forest.

Imagine how you would think and feel after working hard as a day trader for an extended period of time, only to end up flat, or negative. I can tell you from my own experience that the sight of an equity curve that doesn't go anywhere can be pretty discouraging. In a panic it is all too easy to throw out the baby with the bathwater. The tragedy is that this trading system might have been a very workable and profitable one. In a situation like this people are often only trying to trade and is not necessarily a real trader.

When you pull back and elevate to a higher point of view, and when you develop a broader and deeper understanding of the results of your tradeplan, you might experience an equity curve that takes a much longer period of trades into account. Since it captures a much longer time frame, this equity curve represents the overall forest and it will often trend upward as you develop your trading business.

It is amazing what a proper point of view can teach you about successful trading!

Ask yourself this: Would you be able to endure the first equity curve (the flat one) if it meant you could ultimately enjoy the second equity curve (the one that rises)?

The power of CEO teaches us how to be disciplined and run our trading business like any other business owner would. As with any business, there will be slower days and days marked by losses and other immense challenges. There will be days when you want to quit or even feel you should quit, but deep down, you know that moving forward is the right choice. By using these 12 Powers in conjunction with the step-by-step plan that I discuss in my book, you will put yourself in the absolute strongest, most advantageous position you can be in. You will be far better off than most traders and on track to creating long-term success for yourself.

The random distribution of wins and losses associated with trading is hard for the human mind to handle. That is why we need to transform into a different animal with a different mindset. How is this possible? The only way to really overcome the human instinct to flee from pain is through practice and hard work: developing a tradeplan, backtesting, getting odds in your favor, and using the power of dynamic setups, numbers, and compounding.

The person who is simply "trying to trade" will fail.

If you want to dip your toe in the water without diligent preproduction work and preparation, you will not have the necessary belief in yourself or your trading, and you will lack the confidence you need to stay the course when hit with a series of losses. Detach yourself from losing trades (they are not personal; they are inevitable parts of the plan). See the big picture of the tradeplan and focus on the things you can control, the things that can make you money. That is the power of being CEO of a trading business.

Here is how you do it: Run your trading as a business.

» Establish rules, policies, and procedures.

» Establish long-term and short-term goals.

» Commit to effectively managing yourself, your strategy, and your trading capital. Diligently execute a proven trading system

» Strive to trade objectively, consistently, and with minimum emotion.

» Invest your energy into improving your trading system after the market closes—not while trading—but avoid tweaking your system just because you had a handful of losing trades.

» Evolve from being a fretful trader worried about where the market is headed to being a confident trader who knows their system will win and make money over the long haul.

» Understand that confidence and belief are not states you can just talk yourself into. You must go through the proper steps to transform so that you truly believe.

» Learn how to live with your win/loss column created from your backtesting and preproduction work. That means experiencing the good, the bad, the ugly, and the great, over and over again, until you finally begin to truly believe in your tradeplan.

» Practice your tradeplan in a sim account, repeatedly, as if you are running it for real, until you have the repetition you need to execute it perfectly every time.

Think of yourself as a CEO.

» Insist on operational excellence in all phases of trading.
» Focus like a laser on the why of day trading—to make money.
» Don't be the guy or gal trying to trade. That will only land you on the forest floor among the trees.
» Be the CEO of your trading business and operate from above the forest—it is a completely different point of view that will give you a distinct and critical advantage.

When you are a trader, you are in charge.

Hold yourself accountable. Judge yourself by what you do and not by what you think or say. Walk the walk, don't just talk the talk. Know that there are some things you cannot control and some things that you can and must control. **The 12 Powers are within your control and need to be part of your day trading plan.**

Happy Trading!
Troy Noonan