Daniel Gramza provides a detailed outline of questions that a trader must answer before embarking on a trading career. Many novice traders believe that all they have to do is sit down behind a computer and begin trading. Nothing could be further from the truth.

Critical Forex
Trader Decisions

The accessibility of screen based trading has transformed the trading industry. Many novice traders believe that all they have to do is sit down behind a computer and begin trading. Nothing could be further from the truth.

Critical decisions must be made by new screen-based trader about how they will match their trading timeframe, psychological makeup, comfort and support levels, trading strategy, market, trade execution, technology requirements and their goals. When these elements are matched, the business of trading hums like a fine-tuned engine. When they do not match, the trader can be locked in an uncomfortable, frustrating and usually losing trading situation. Start by examining these critical elements of trading and comparing your application of these elements to your trading business.

**Trader’s Timeframe**

When making this decision, ask yourself what type of trader you want to be. It is important to take time to think this question through. Your answer to this question will determine the appropriate responses for the following categories. Consider which of these timeframes is appropriate for you. Here are some possible choices:

A **scalper** is a trader in the very short timeframe looking to make one or two ticks per trade.

A **day trader** is a short timeframe trader trading one or more times during the day, but not holding a position overnight.

A **swing trader** is an intermediate timeframe trader holding a position from 1 to 10 trading days.

A **position trader** is a long timeframe trader holding a position 10 or more days.

It should be noted that swing traders and position traders who trade futures have margin requirements because positions are held overnight.

In choosing a trading timeframe, consider whether you enjoy the immediate, and sometimes instant, profit and loss feedback of the short timeframe trader, or whether you would prefer to establish a position and see how it unfolds over a few days or weeks. Also consider how much time you have available for trading. Trading in the short timeframe requires substantial time and your complete attention. If you do not have the time to devote to the markets during trading hours, you should not attempt to be a short timeframe trader. A
trader in the short timeframe cannot afford any distraction from the markets.

Typically, traders in the short timeframe trade at a higher frequency with lower profit expectation and risk per trade. As the timeframe is increased, swing traders or position traders typically have lower trade frequency with higher profit expectation and risk per trade.

Does the trading timeframe you have selected fit your long-term goals and mental makeup? An inappropriate timeframe can change your trading from a joyful experience to one of stress, frustration and fear. Remember, you are making a decision about the characteristics of the business you are establishing. Life is too short to be in a position where you are stressed and unhappy. Keep in mind that what is stressful for one person can be an exciting challenge to another. There are no right or wrong answers, selecting a trading timeframe is a very personal decision.

**Trader’s Psychological Makeup**

- **Comfort and Support Levels**

Individual psychological makeup will have the greatest impact on trading results. Take the time to identify whether you are an aggressive or non-aggressive trader. If you view yourself as a non-aggressive trader, then a very aggressive trading approach will never feel right, and will most likely be stressful and unproductive. The same holds true for the aggressive trader and a non-aggressive approach. There are many ways to trade the markets. Be patient and find the right one for you.

Determine how much or how little market or technical information is right for your mental comfort. The ability to stick to a trading strategy and identify trading opportunities can be lost if you feel overwhelmed by the amount of trading information available and you experience information overload. Identify the information that is essential to your trading decision process and eliminate the rest. To do this, ask yourself what benefit you will get from an additional piece of information? Will the information get you into your trade with better trade location, increase your profitability, enhance your trade exit or decrease the amount of risk per trade? If you cannot say “yes” to one of these options, do not waste your time.

Do not let superficial information cloud your thought process and lead you away from your trading objectives. Keep your information tools clear, clean and succinct.

Now, determine how much or how little environmental stimuli are required to support your top mental trading performance. Too much environmental action could become a total distraction and keep you from being focused on trading activities. Some traders prefer having sights and sounds surrounding them. Begin this process by visualizing how your ideal trading environment will look, sound and feel. Do you like having noise around you when you trade? Would you like to trade alone or with other people? Do you like to have sound from a television or music in the background while you are trading? What would the physical surroundings of your ideal trading environment look like – a room with no windows or sitting outside in your backyard? What is your body position? Would you be sitting upright in a hard chair, sitting in a soft chair with your feet up or standing at your desk? Ask yourself questions about what environment supports your psychological makeup and helps you stay focused on your trading business.

**Trading Strategy**

The trading strategy that you select will create demands on your trading software and data, your trade execution method and you. Take a moment to think about your trading strategy in this context.

**Trade Location, Bid/Ask Spread and Time**

If your trading strategy requires exact trade location, a tight bid/ask spread leaves little time to execute a trading signal. You must react to the market immediately. This requires that your trading software and data be current to the tick and your trade execution method be instant. These are typical requirements for short-term trading.

If your trading strategy allows for flexible trade entry, does not require a tight bid/ask spread, and you have time to assess a trading opportunity and execute a trading signal, your software and data requirements could be a delayed signal. These could be the characteristics of a long-term trading strategy.

**Trade Execution**

Usually, the shorter your trading timeframe, the faster you must execute your trades. A shorter timeframe means that trade location becomes critical, because the shorter timeframe trader is only looking for a few ticks from the trade. A tight bid/ask spread is a necessity. The longer timeframe trader’s objective is not a few ticks, but possibly hundreds of ticks. More time is taken to enter and exit the trade and exact trade location is not critical. Paying a tick or two to enter or exit will not make or break the trade.

**You**

All trading strategies do not fit all traders. Is your trading strategy’s magnitude of risk vs. reward acceptable to you? Is your trading strategy high or low risk? Ask yourself whether the risk requirement is within your mental comfort zone and whether your account can sustain this amount of risk per trade.

Be aware of your mental and physical reactions while implementing your trading strategy. You may find that the trading strategy is fine, but is not a good fit for you in a particular timeframe. Investigate the possibility of using the trading strategy in a longer time period. If the profitability meets your risk/reward ratio, then you are right on target. You have developed a trading strategy you should pursue.

Examine what your trading strategy requires from you psychologically. Take time to think about this. The trading strategy may require you to stretch your current comfort level. This is not necessarily bad. If you have done the research and the homework necessary to thoroughly understand the trading approach, you will feel confident in applying it to the markets that you are trading. Moving the bar up a few notches and stretching as a trader can work.

**The Market**

Your trading strategy must also match with the characteristics of the markets you are interested in trading. If your trading strategy requires something from the market that the market cannot give, your trad-
ing will most assuredly not be productive. In order to ensure top performance, determine which market characteristics will work best with your trading strategy and make sure the market you are going to trade demonstrates those characteristics.

Consider whether your trading strategy requires high or low market volatility. When during the month, week and day do high and low volatility periods occur? Does magnitude of volatility for a time period match your magnitude of profit objective? Does market liquidity match your trading size?

Ask yourself whether your market expectations are impeding your trading strategy. Traders have a tendency to look for what they want from the market, instead of looking at what the market is doing. You may want market volatility, but you may be looking for it during a time of day, week, or month when the market is not volatile.

Frequently, traders identify and enter what would have been a good trade, but exit too early because the market is not reacting immediately to their expectations. They assume that their entry signal was flawed and become frustrated with the market, but it was they who did not understand their market’s characteristics and personality.

If you need volatility for your trading strategy to be productive, do not make the assumption that the market will provide that volatility as soon as you enter a trade. The market does not care what you want! It is your job to understand your market and to manage whatever challenges it presents. Your job is to identify the opportunities presented, not the other way around. Identify when and how your market typically sets up the period of high volatility that you need. Look for those opportunities, enter your trade and be patient.

**Trade Execution**

In order to match your trade execution method with the other elements mentioned, you must evaluate and understand its strengths and weaknesses. Determine how your trade will be executed. Do you speak to a person to execute your trade or click a button with a mouse for electronic execution? Does the type of trade execution make a difference to you psychologically? Is it comforting to you to have a human voice guiding you through the trading process or are you concerned that they may talk you out of your trade?

Is your trading strategy short timeframe or long timeframe? The time it takes for you to execute your trade can be a filter for the type of trading timeframe you use.

Also, consider whether your trade execution method, time to execute a trade and type of active and resting orders all comply with your trading strategy requirements.

**Technology Requirements**

Your trading timeframe will determine your technology requirements. Short-term timeframe traders typically require real-time technical analysis software. On the other hand, long-term traders may use delayed data to make their trading decisions. The flexibility of the software, its maintenance requirements, delivery method, and cost should be considered when evaluating the technology requirements.

**Your Goals**

A trader’s goal is to make money. Trading is not about being right. Being right is irrelevant and, as many traders have learned, the market has a way of keeping you humble. Like any business, successful trading requires the implementation of a business plan. Begin by determining your trading objectives.

What are the profit and loss expectations for your trades? What position size is necessary to meet your goals, and does your account size support those position requirements?

**Summary**

The synergistic match of your trading timeframe, psychological makeup, comfort and support levels, trading strategy, the market, your trade execution, technology requirements and your trading goals creates a solid trading business foundation. But it is not the end of the story.

Once you have completed matching these critical elements, assess your current mental and physical condition before you begin each trading session. Begin this self-assessment by asking yourself if you are well rested and feeling well. Are you focused, balanced and ready to trade? Is your belief system intact? Do you know what action you will take in every situation? Have you done a mental visualization rehearsal of trading successfully?

At the end of each trading day, take time to do a mental debriefing. What was your state of mind today as you were trading? Was your mental state clear, focused, confident and calm? Did you enter and exit trades without hesitation? If you did not, why? Were you patient today? Did you allow the trade to develop and come to you, or did you rush into the trade, trying to anticipate what the market “should do?” Did you stay with your profitable trades and cut your losses at the pre-determined stop-loss price? If you did not, why not? What did you learn about yourself and your trading strategy from your profitable and non-profitable trades? It is important to determine when and how you will implement what you have learned from your winning and losing trades. This knowledge provides a consistent resource for improving your trading business.

There is much more to screen-based trading than a computer and a trading account. A smooth running screen-based trading operation begins with the recognition and analysis of these critical basic elements of a trading business. By taking the time to thoughtfully match these elements, the screen based trader takes a major step in developing a successful trading business.

How does your Forex trading business match up?

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