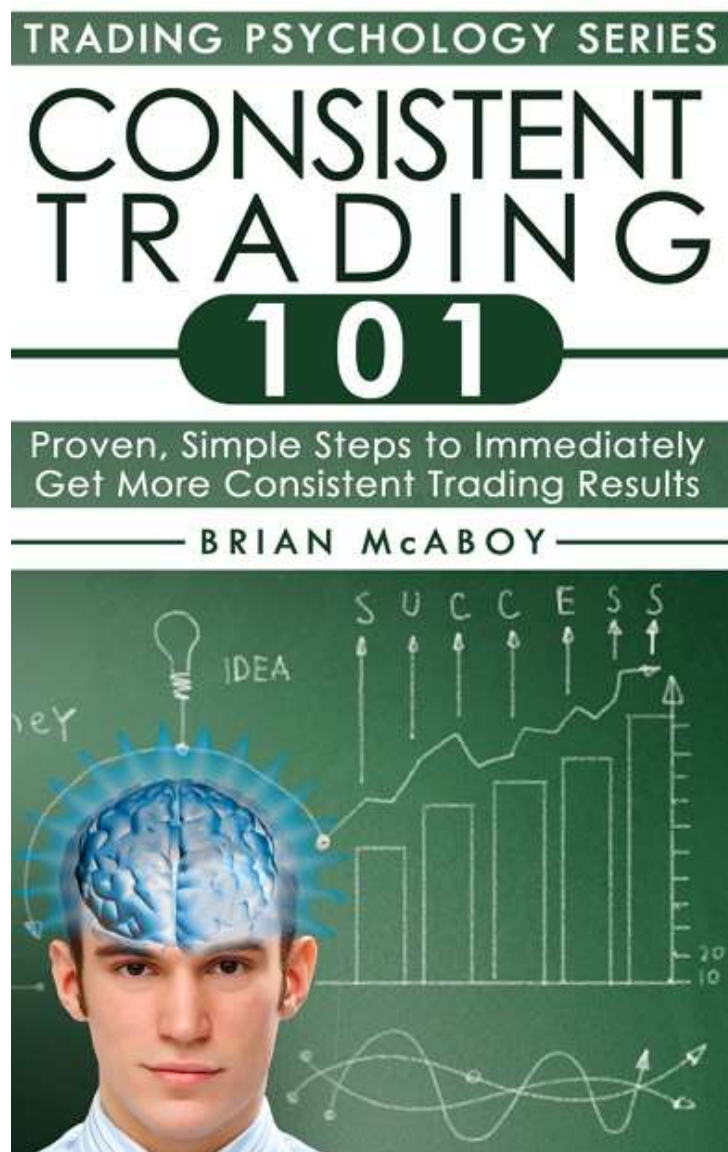


# How to *FINALLY* Get Consistent Results In Your Trading



By

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<http://www.insideouttrading.com>

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## **Introduction**

The ultimate goal for all traders is consistent and reliable profits, with a trading operation that allows confidence, security and predictability. Now you may be thinking “Yes that’s what I want, but with so much uncertainty in the markets, how am I ever going to be able to attain that?”

While it is true that no one can predict the markets, you can make the uncertainty of the markets a non-issue, thus removing it from your trading. No one has control over the markets, yet there are numerous traders that enjoy trading as described above and they also enjoy consistent and reliable profits year after year as well, trading the same uncontrollable and unpredictable markets that you do.

By the end of this report, you too will know exactly how to finally realize consistent results from your trading, and how to raise your confidence and security tremendously on your way to predictable, reliable and profitable trading.

Now, it is important for you to understand something here. This report is being kept extremely brief for two reasons: 1. I respect your time, so I am not filling up pages simply to give it enough “weight” to justify the meager price; 2. I am a firm believer that many solutions don’t need to be 500, 300 or even 100 pages to communicate the core ideas and information. Often this can be accomplished in only a handful of pages, so I try to keep my works as brief and concise as possible. This particular topic does not warrant an entire book, although there are certain matters brought up which do, and at those points I’ll recommend specific resources so that you can explore them further if you so choose.

This report is not intended by any means to tell you everything you need to know about trading. It is intended to raise your awareness to a specific and commonly overlooked problem, give you a simple and effective solution, and then also to give you a different perspective on your trading and how you approach the challenges before you as a trader.

The first part of this report details the problem and the solution. The second part then expands on the approach so that you can make use of it in other areas of your trading. It is my intention with this report to give you a new look at your trading business, and one that serves you well.

### **Part 1 – A Very Specific Problem**

Let me begin by raising your attention to this: **if you find this in your trading and choose to NOT to address it, you are leaving yourself open to a whole slew of emotional challenges in your trading that will last indefinitely.** Additionally neglecting this will make implementing some of the known best-practices in trading very difficult, if not impossible.

Since releasing the Trading Performance Analyzer back in 2007, I've had conversation with numerous traders about backtesting and the importance of system analysis and tracking your key metrics. The reason that many of those conversations was taking place was because the person on the other end of the phone was at the point of struggle and frustration with their trading and they were very excited at prospect of being able to use the Analyzer to help them understand why their past success was eluding them now.

As we got to talking in more detail, they'd tell me about what they'd done in the past and where they were now with their trading. I'd ask about the system they were using and if they'd been able to identify what had changed or what they were trying to get back on track. Usually at this point they'd tell me that had used this strategy or that and traded in these markets before but now had also moved into other markets, perhaps also making some changes to their system by incorporating different indicators or twists on the methodology.

Now these things are fine and quite commonly done, actually expected. As you develop and grow as a trader, you naturally want to put the things you discover or learn of into use, so your trading system will evolve. That is only natural.

When we got to the point where I asked if they had their trading system written down, the answer was usually half “Yes” and half “Well, sort of” or “Not really” or just plain “No”.

The one thing that was common amongst all of them was their answer to the next question: “Is your system well-defined, and are the decision points clear to you?” After some thought, the answer was “No, not really.”

After some further questions, we’d come to the conclusion together that they were trying to trade with a rather discretionary system and / or a mixture of systems, but not a consistent system that was clear and well defined. What they employed on a given day might be subject to a variety of things, and certainly not the same from one week to the next.

Again, back to the goal of consistent profits.

Whether your system is very clear and written down or if it is totally random, you still have a system. The more random it is, the less likely you are to have consistent results, regardless of what the market does. On the same note, the clearer and more consistent your system is, the more consistent your results are likely to be, regardless of what the market does.

Now this presents a different challenge: how do you know?

Seriously, how do YOU know if you have a clear and well defined system? How clear is clear enough? How well-defined is enough? I bring this up, because even those that had their systems written down, still did not feel that it was as clear as they’d like when we pursued it thoroughly. How do you know?

### **The Specific Solution to the Problem**

At this point, let me share a bit of my background in my previous life outside of trading, because the solution I am going to give you is applicable in many areas, both specific to the business of trading and businesses in other industries.

You see, uncertainty is something that all businesses have to deal with, and there is a specific methodology to addressing it. I personally developed an addition to that methodology that works outside of trading, but is especially effective for the problem at hand, in trading.

I used to be a Quality Manager, which meant that one my primary functions was to ensure that our manufacturing operations ran consistently, efficiently and as cost-effectively as possible.

One tool integral to that effort was the Quality Manual. Now many people have no idea what a Quality Manual is. Simply put, it is the document system which defines the operation and everything that goes on in the operation. Its purpose is to make clear to everyone in detail how the company intends to achieve its goals.

A Quality Manual consists of layers of documents, each answering different questions:

1. Top level: Mission and Vision statements which detail the future of the company and what is to be accomplished
2. Next level: Policies which give an overview of the company rules that are set in stone, and these support the mission and vision statements.
3. Procedures are next and define the general activities of the business, and for each of those activities, answer the questions of:
  - a. "What is to be done (described generally)?"
  - b. "Who (is responsible for making this happen)?"
  - c. When (or how often) is this activity to be performed?
  - d. In what areas is this applicable (physical or departmental)?
4. Work Instructions support the procedures and answer these questions:
  - a. What is to be done (specifically)?
  - b. What are the steps to do this task?

Creating these documents can be quite a challenge, where you are defining what people are to be doing on a daily basis. Ideally these documents are clear and

complete to the point that those following the procedures and work instructions can do their jobs consistently and according to the established best practices.

When we were first developing the document system, there were many procedures and work instructions written that were NOT clear and wound up needing many revisions. People would have questions in order to do the task at hand, and taking the time to get answers interfered with their efficiency. Either that or things would be done in a random fashion, depending on who was on shift that day or how they were feeling.

In the Quality Department, we had to make sure that all the activities and tasks that mattered (which was most), were documented and documented well. The level of documentation and the clarity and completeness of that documentation were in direct proportion to the consistency of the results, be they product quality, production, general housekeeping, accounting, customer service, etc.

As I trained others to write procedures and work instructions, I found a very effective method for creating these documents in a manner such that they were clear, complete and did not need revision for years.

Here's the method for the creator of the work instruction:

1. Go through the entire process yourself, writing down every step you take
2. Find someone in the plant that knows their way around (assume that they do know the basics in that area), but hasn't performed that specific task before and have them go through the work instruction.
3. Write down every question they have, and note anything they miss
4. When you can give the work instruction to someone new to the task and they can do it exactly as you expect and without question or assistance, then you are done. If not, repeat steps 2 and 3.

So how does this apply to the problem at hand, with one's trading system?

**When you have your trading system documented clearly and thoroughly to the point that you could hand it to another trader, and they could trade it**

**the same as you without questions or assistance, then you have a sufficiently well-defined system.**

### **Making the Uncertainty of the Markets a Non-Issue**

Now this also solved another problem encountered by the people I spoke of earlier. They were having a tough time trying to backtest their system, because of its lack of clarity. When an activity (like trading system execution) is unclear and variable, it is difficult to repeat. But that is exactly what you are doing when you backtest. You are taking your system back in time and running it through its paces repeatedly to validate it and understand the associated metrics.

Back to our goal of consistency: consistency comes from repeatability in what we do. When your system is clearly and completely defined, especially all the decision points, it becomes very repeatable and thus consistent and reliable.

Through backtesting and determining your system's metrics, you'll know how many winners and losers to expect, what average return-per-trade to expect, what your profit-to-loss ratio is. This is the point where the uncertainty of the markets becomes a non-issue with regards to your trading system.

If you have your trading system thoroughly defined and documented, and then backtest it properly and track your actual trading performance, you'll know what to expect from your system regardless of what the markets do, uncertain as they may be, because you'll have a repeatable and reliable system and you'll know the metrics associated with that system when traded with real market data.

NOTE: one aspect of trading (and business in general) that many overlook and subsequently pay a high price for, is that to properly and *effectively* systemize, confirm and optimize a process requires a specific skill set. This was something I'd never even heard of prior to entering the field of Quality Assurance.

However, when you acquire this skill-set, you can approach your trading in a very calculated and business-like manner that gives you incredible peace of mind and

confidence. Without it, traders often end up with a trading system based on a decent strategy, but the system itself has flaws that create functional and psychological issues.

Without the ability to recognize a trading system's shortcomings, traders often blame themselves for what is really not a matter of a lack of discipline, but instead a problem with their trading system.

That situation has several negative consequences: you feel like you're the problem, which only compounds the personal stress that trading can put upon you, your results are still inconsistent, regardless of how 'focused and disciplined' you try to stay, but worst of all, the real problem never gets fixed, so it continues indefinitely.

To see how to become a true Trading System Master in a matter of just a few hours, where you can take a system, ANY system or method, and make it into a profitable and easily traded system, again, take a look at the Trading System Mastery Accelerated Coaching Program here, <http://tradingsystemmastery.com/>

## **Part 2 - Taking the Uncertainty Completely Out of Your Trading**

Now back to the parallels between trading and all other businesses, and how you can capitalize on what we've discussed above to take the uncertainty completely out of your trading.

Like I mentioned before, all businesses have uncertainty to deal with. A business is not a building, equipment, computers, software, vehicles or machines. A business is people making things happen. It is an operation that involves people and those people are engaged in activities that make it a business.

As a Mechanical Engineer, I learned a long time ago that it doesn't matter how great things work on paper. You can design the most magnificent machine or equipment layout ever, but when you take it into the real world, you have to include people into its function.

What was truly enjoyable about my time as a Quality Engineer and Manager, is that I got to deal with processes that included both the machines and the people running and maintaining them. The reason that Quality as a business approach and the Quality Manual have taken on increased significance over the years is business leaders have come to understand that profitability is very closely tied to the focus that the business has on quality, both in product and service delivered, but also within the operation itself.

In a process, variability represents risk. The reason that the Quality Manual is of such importance is that it reduces the variability in what the people in the company do. As more and more activities within the company are systemized and clearly defined and documented, the more consistent the company runs. This is the foundation of franchising – building duplicable businesses that can be run with generally available labor – and produce predictable profits, regardless of what town you put one in and who's going to be working in your franchise business.

Back to trading.

Part of the problem here is the wording. Most traders think of a trading system the way it is defined by Investopedia.com:

A trading system is simply a group of specific rules, or parameters, that determine entry and exit points for a given equity. These points, known as signals, are often marked on a chart in real time and prompt the immediate execution of a trade.”

By this definition and way of looking at one's trading system, it is easy to understand why so many traders think that when they sign up for a signal service or buy a particular software package that gives them buy and sell signals, they think that they have a trading system. But they don't. Not really.

You see, trading is a process, not just a set of rules and signals. That process is a series of actions, it is an activity, and is best defined by procedures.

I bring up the point that your trading is a whole process, not just a trading system to illustrate the importance of reducing variability, thus eliminating uncertainty. Your “trading operation” must include everything that impacts your trading results. There can

be many factors that introduce variability, and I'm talking about things in what you do, not the markets.

A lesson that we can learn from Quality is to focus on the process before focusing on hitting the target. In manufacturing, process control is imperative to producing in-spec product. If a machine process is both highly variable and off the target specification, there are two approaches that can be taken. You can try to center the process, then reduce the variability or you can tighten the process and then center it. In the automotive industry, the Japanese will generally focus on the process first, then the target, whereas American car-makers often focus on hitting the target first, then tightening the process. Needless to say, the process-focused approach usually reaches the end-goal with considerably much less time and money involved.

Same goes for trading. Understand that your operation is more than your trading system, more than a set of signals and rules. It is a collection of systems. Many people start trading and think that as soon as they have a "trading system", they have a trading operation. They don't. That is only one part of the business.

Your trading business is like any other business in certain respects: you have an owner (you), and a worker (you, the trader), probably an accountant to do your books (maybe you, maybe you hire one out), a computer technician for installing software (again probably you), head of Research & Development, etc. etc.

The point is, as the owner of your trading business, you have many hats to wear, many roles to fulfill. As with the trading system, you have a business whether you treat it as one or not. As you define your roles and document the activities for each of those roles more clearly, the more repeatable and predictable your business will become. In the [Trading As Your Business](#) Trader Training Course, I walk you through all of the aspects and steps of organizing, planning and starting up your trading business, so you might find it helpful to take a peek at it. There are numerous aspects to your business and it is valuable for you to define those roles, document the associated activities and periodically switch hats and fulfill those roles – but with intention, not haphazardly.

## **Conclusion**

One very common problem that traders struggle with is a lack of clarity in their trading system. Perhaps trying to get too technical, or just wanting to find that something that works causes one to introduce variables and inconsistencies into the system, thus adding to the uncertainty of it to be repeatable and reliable.

Without clarity in one's system, you leave yourself open to a host of problems. Most of all deviations and decisions that result in regrettable losses. You'll find it difficult to trade and backtesting will be dicey at best and of little value.

Make sure that you clearly and completely define your system to the point that you could hand it to another trader and have them trade it the same as you. Then you've got a clearly defined system that you can measure, track and improve.

You trading is a business, and the more clearly you define the roles and activities in your business, the more certainty and repeatability you bring to your operation as a whole.

The markets will have their uncertainty and there is nothing you can do to try to control the markets or predict them.

You do however have total control over yourself and what YOU do.

When you take control of yourself and your operation, you will effectively make the uncertainty of the markets a non-issue and you'll take the uncertainty completely out of your trading.

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## **About The Author**



Brian McAboy is a trader, degreed Mechanical Engineer and Certified Quality Engineer.

His strengths in Mechanical Engineering were in processes and systems, and while a Quality Engineer, his strengths were in the Quality process, operations, documentation and training. All throughout his career, Brian has kept the focus that people are at the heart of every operation and specifically focused on supportive leadership that develops and empowers people.

Since becoming a trader back in 2000, his focus has been on the personal side of trading and in 2005 began creating resources for traders to help them deal with the personal challenges of trading and to accelerate their development into solid traders.

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For resources to help you trade successfully, go to <http://www.insideouttrading.com>

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