

READERS' QUESTIONS: HOW SUCCESSFUL BUSINESSES ARE ORGANISED

By Tom D'Angelo

SUBJECT SUMMARY

THE BUSINESS OF TRADING

Trading is a business. The trader deals in buy and sell contracts and has an inventory of shares that are the same as the 'stock' in a retail shop. His customers do not walk in the door. They are found throughout the country and are connected by a broker and an exchange which facilitates the sale of 'shares'. Every business has its profitable and less profitable sections. Trading is no different and our profits come from particular techniques and processes. Successful traders create a professional trading environment to manage their trading activities similar to a successful business.

Good software assists in this process. These articles explain how ManusRisco money management software is used to improve the business control and management of trading.

Failure to adopt a professional, disciplined businesslike approach towards speculation and investment will significantly decrease your chances of achieving long term profitability in today's volatile trading arena. These articles are designed to teach you how to create a professional trading environment so you can manage your trading activities similar to a successful business and make confident, disciplined trading decisions.

Over the next few weeks we will cover these topics:

- **Introduction - How successful businesses are organised**
- The Profit Centre business model applied to trading
- A professional, disciplined money management methodology
- Positive and negative expectation games
- Drawdown
- Return on Investment
- PTR / UTR
- Breakeven Analysis
- The edge: Who has it and how to get it.

To achieve long term profitable speculation, the trader must master three disciplines:

- Trading methodology
- Psychological discipline
- Money management

The trading methodology is your system for generating trades. Psychological discipline is the ability to master the emotions of fear and greed which afflict every trader. Money management is the constructive analysis of trading performance designed to control risk, increase profitability and engender a professional, businesslike trading environment.

Unfortunately many traders concentrate on the trading methodology and neglect the other two disciplines, much to their eventual financial detriment. Although I will concentrate on money management, the concepts I will present will also assist the trader to advance up the learning curve of the other two disciplines.

Failure to adopt a professional, disciplined, businesslike approach towards speculation and investment, will significantly decrease your chances of achieving long term profitability in today's volatile trading arena.

It is our hope that you will learn new concepts which will enhance your profitability and learn how to trade confidently and professionally.

In this article, I will describe how successful businesses are organised. To succeed in business, whether you are a small mum and dad grocer or an international corporation, the one element you

absolutely must have is information. And the information must be organised in such a manner so that you can make practical and educated managerial decisions.

Attempting to make critical managerial level decisions without information about your company's operating performance, is similar to flying a plane in the dark without instruments. Imagine that you are the CEO of General Motors and you arrive at work in the morning and find an empty desk. You did not have any information as to which cars were selling well and which cars were not, how much profit you are making on each car, which cars to raise prices, which cars to discontinue etc. Would you be able to make intelligent managerial decisions in this type of situation, or would you eventually go broke?

Unfortunately, the vast majority of traders attempt to compete in the extremely volatile trading arena while sitting behind an empty desk. Most traders open an account and immediately begin trading without any business structure to organise their trading operations. And trading is not treated as a business, but instead becomes a form of excitement or a hobby with the inevitable results.

Every successful business is operated in a structured environment designed to provide management with the information necessary to make the crucial managerial decisions required to profitably function in today's highly competitive environment.

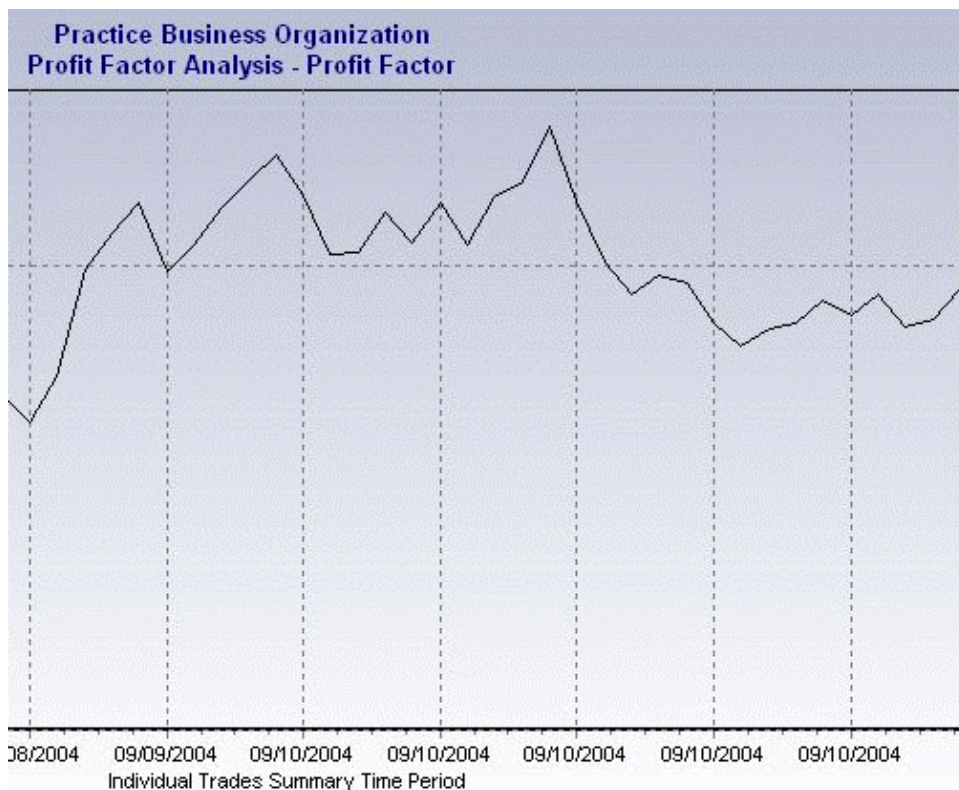
The standard model of business organisation is the Profit Centre. Profit Centres enable management to segregate revenues and expenses in such a manner so that management can utilise the information to adjust to rapidly changing market situations.

For example, a restaurant may have three Profit Centres for breakfast, lunch and dinner. The breakfast Profit Centre would be credited for the sales customers paid for breakfast and charged with the expenses required to make the breakfast, such as waitress salaries, food expenses, etc. Similar techniques are used for the lunch and dinner Profit Centres.

Management can now utilise this information to determine which meal is producing a profit and which meal is producing a loss. A meal which is producing a loss should be analysed to determine if sales can be improved, and if not, whether the meal should be discontinued. The important point to realise is that an educated decision cannot be made without information which is both practical and well organised.

Other examples of Profit Centres are a supermarket with bakery, meats, produce and frozen foods Profit Centres, or a department store with boys', men's and women's clothing Profit Centres.

If you can't successfully manage a restaurant, supermarket or department store without properly organised and timely information, what makes you think you can



succeed at the trading business which is 100 times more volatile and hectic than a supermarket or department store?

The empty desk business management model will bankrupt you, not only in the business world, but also in the trading game. The empty desk also produces the fear and anxiety which will eventually destroy you. Lack of information creates the unknown, and the unknown creates fear and anxiety. Just like the fear and anxiety we all felt when we were 5 years old and walked into school for the first time and we were separated from mother. We had no information what school was like, so we were fearful and anxious. But after we had information (we met our fellow classmates, we got to play with blocks etc), the fear and anxiety started to disappear.

Timely and practical information enables the trader to master the destructive psychological emotions he is confronted with on a daily basis.

So now that we know the basics of a structured business environment, which is designed to provide the information we need to successfully compete, the next question is, how do we apply our business model to trading? And that will be explained in our next article.

Tom D'Angelo is the CEO of ManusRisco Inc. The money management methodology described in these articles is used by ManusRisco money management software which can be found at www.manusrisco.com. This software adds an important business dimension to the business of share trading.