

## THE PROFIT CENTRE BUSINESS MODEL APPLIED TO TRADING



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.

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.

In our previous article, I described the basics of a business structure designed to provide the information required to profitably manage any type of company. In this article, I will apply the Profit Centre business model to trading.

To succeed at the trading business, you must organise your trading results so that you can have timely information as to when, where, why and how much to trade (similar to the automobile executive who must know which cars to produce, which cars to discontinue, which cars to raise prices etc).

Let's create a hypothetical trader and apply the Profit Centre business model to his trading business (this business model can be applied to any type of trading, such as futures, FOREX, stocks, indexes, day trading, overnight trading etc).

Let's assume our trader decides he will trade a breakout trading system as well as a trend following system and a trading method which attempts to trade a price gap opening. The trader creates three Profit Centres named Breakout, Trend and Gapopening.

Our trader also creates a Profit Centre named Last30minutes because he would like to segregate his trades taken in the last 30 minutes of trading because he suspects he is not very profitable trading the highly volatile price swings of the last 30 minutes 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

The Profit Centres that he creates are called the Profit Centre Structure. Each Profit Centre becomes a separate business which provides him with the information required to make educated trading decisions. Profitable trades become revenues and losing trades are expenses. As a trade is completed with either a profit or loss, the trade is entered into the appropriate Profit Centres.

For example, a trend following trade made during the last 30 minutes of trading would be entered into the Trend and Last30minutes Profit Centres. Information which is entered into the Profit Centres are items such as the Symbol traded, the number of contracts or shares traded, the profit or loss etc.

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**Actual Business Organization**

**Profit Centers**

<b>BREAKOUT</b>	ALL TRADES TAKEN FROM A BREAKOUT TRADING SYSTEM
<b>DIVERGENCE</b>	ALL TRADES TAKEN FROM A DIVERGENCE BETWEEN CASH AND FUTURES PRICES
<b>MORNINGTRADES</b>	ALL TRADES TAKEN IN THE FIRST HOUR OF TRADING

**Trade Types / Symbols**

<b>FOREX</b> EURUSD	ALL FOREX SYMBOLS EURODOLLAR / USDOLLAR
<b>INDEX</b> ES NQ	ALL INDEX SYMBOLS E MINI NASDAQ MINI
<b>STOCKS</b> EBAY GOOG IBM	ALL STOCK SYMBOLS EBAY STOCK GOOGLE STOCK IBM STOCK

After about 20 trades have been entered into a Profit Centre, the trader now has a sufficient sample size to produce the Analysis Reports which provide him with the information necessary to make educated trading decisions. His desk is no longer empty. His trading business is organised and designed to provide the information required to trade in a disciplined and confident manner.

Analysis Reports can now be created for any combination of Profit Centre, Symbol and Number Traded, such as creating an Income Statement for the Breakout

Profit Centre, the ES Symbol and for trades where only 2 or more contracts were traded.

The above image displays a typical trading Business Organisation. The Profit Centre Structure contains Breakout, Divergence and Morning Trades Profit Centres, which will monitor various trading systems. Each Profit Centre will become a separate business. Profitable trades are revenues and unprofitable trades are expenses.

The trader will trade the EURUSD on the Forex, the ES and NQ Index Symbols and the EBAY, GOOG and IBM stocks.

After about 20 trades have been entered into a Profit Centre, various Analysis Reports can be

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<b>DOUBLE BOTTOM</b>	All trades taken off of a double bottom price formation
<b>GAPOPENDOWN</b>	All trades taken off of a gap opening down in the morning
<b>GAPOPENUP</b>	All trades taken off a gap up opening in the morning
<b>STOCHASTICDIV</b>	ALL Trades taken off of the divergence between price and Stochastics

**Trade Types / Symbols**

<b>FOREX</b> EURJPY EURUSD	All FOREX Symbols such as EURUSD Euro Dollar and Japanese Yen on the Forex Euro Dollar and US Dollar on the Forex
<b>INDEX</b> ES NQ	All Index Symbols such as ES, NQ E Mini Nasdaq Mini

created which enable the trader to make educated decisions as to when, where, why and how much to trade and inform the trader as to whether he is playing a positive or negative expectation game.

Another example of a trading Business Organisation can be seen below.

Future articles will describe the Analysis

Reports and the statistics each trader should be aware of if he desires to adopt a professional and disciplined approach to trading.

Does this methodology guarantee success? Unfortunately, the answer is no, but you have significantly improved your chances. So the next question becomes, how do we tie all this together into a professional and disciplined money management methodology? The answer will be in the 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](http://www.manusrisco.com). This software adds an important business dimension to the business of share trading.