

## A PROFESSIONAL AND DISCIPLINED MONEY MANAGEMENT METHODOLOGY

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.

In previous articles, we discussed the Profit Centre Structure of a successful business organisation. In this article, we will define the components of a professional and disciplined money management methodology.

The following methodology provides the information required to trade confidently and profitably:

- Create a Business Organisation which segregates trading performance into meaningful "businesslike" enterprises which reflect your trading methodology.
- Update the Business Organisation with each day's completed trades.
- Produce Analysis Reports which contain key money management statistics for the Business Organisation.
- Use the Analysis Reports to:
  - Identify positive and negative expectation situations, as well as their trend.
  - Capitalise on trading strengths and strive to eliminate trading weaknesses.
  - Establish and manage the Reward/Risk profile for new trades
  - Utilise a professional and structured money management methodology to engender confidence, foster trading discipline and increase the probability of achieving long term profitability.
  - Return to the second step (Update the Business Organisation) and start the process over again.

For those of you who have any type of business experience, you will probably recognise that the above steps are performed by every successful business, whether it's a large corporation or small mum and dad corner grocery store. In essence, our money management methodology is the framework for the operation and management of your trading activities as a successful business.

The above methodology organises your trading results so that Analysis Reports can be created to answer important money management questions, such as:

- Which trading methods are profitable and which are unprofitable?
- What are my trading strengths and what are my weaknesses?
- What will be my Reward/Risk Profile for tomorrow's trading day?
- What is my current drawdown situation?
- Where am I becoming more profitable and where am I becoming less profitable?
- Do I have an edge in any particular situation, and if so, is the edge increasing or decreasing?
- How many contracts or shares should I trade tomorrow and how many points should I risk on each trade?
- What is my Trading Plan for tomorrow and how does the Trading Plan compare to my past trading performance?
- What is my breakeven profile?

The above questions are the same questions that every business manager is confronted with on a daily basis, such as an auto manufacturer: Which cars are selling and which cars are not? Which cars have the highest profit margin? Which have the lowest profit margin? Which cars are unprofitable? Which cars should I produce more of and which cars should I discontinue? What is the profitability trend? Am I becoming more profitable or less profitable?

Without a structured Business Organisation designed to provide informative and practical Analysis Reports, it is impossible to answer these questions, and your business, whether it is selling cars, shoes, televisions or day trading the E Minis, will suffer the consequences.

The above methodology also reveals where you have the edge and where you don't, where you have a positive expectation and where you don't, where you are playing as the customer and where you are playing as the casino, and that will be the subject of 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](http://www.manusrisco.com). This software adds an important business dimension to the business of share trading.

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