

## READERS' QUESTIONS: PTR / UTR

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 learned how to create a Profit Centre structure designed to organise our trading results similar to a successful business. We also took a look at the Drawdown and Return on Investment reports which can be created from the trading results we entered into our Profit Centres.

In this article, we will take a look at trading efficiency and the Profitable Trade Ratio (PTR) and Unprofitable Trade Ratio (UTR).

The PTR is the current profit per contract (or profit per share) divided by the cumulative profit per contract (or share). For example, assume we had the following three profitable trades:

<b>3 contracts</b>	<b>+ \$ 500</b>	<b>Profit per contract \$ 167</b>	<b>Cuml profit per contract \$167</b>
<b>3 contracts</b>	<b>+ \$ 100</b>	<b>Profit per contract \$ 33</b>	<b>Cuml profit per contract \$100</b>
<b>2 contracts</b>	<b>+ \$ 600</b>	<b>Profit per contract \$ 300</b>	<b>Cuml profit per contract \$150</b>

The PTR equals the current profit per contract divided by the cumulative profit per contract. For example, the PTR after the second trade equals  $33 / 100 = .33$ . The PTR after the third trade equals  $300 / 150 = 2.0$

You would like to see the PTR above 1.00 and increasing as shown between the second and third trades. This indicates that your current profit per contract is greater than the cumulative profit per

contract. You do not want to see the PTR below 1.00 and decreasing. Use the same technique for stock trades

The UTR is calculated in the same manner. For example, assume we had the following three unprofitable trades:

<b>4 contracts</b>	<b>+ \$ 500</b>	<b>Loss per contract \$ 125</b>	<b>Cumulative loss per contract \$ 125</b>
<b>2 contracts</b>	<b>+ \$ 300</b>	<b>Loss per contract \$ 150</b>	<b>Cumulative loss per contract \$ 133</b>
<b>1 contracts</b>	<b>+ \$ 100</b>	<b>Loss per contract \$ 100</b>	<b>Cumulative loss per contract \$ 129</b>

The UTR equals the current loss per contract divided by the cumulative loss per contract. For example, the UTR after the second trade equals  $150 / 133 = 1.13$ . The UTR after the third trade equals  $100 / 129 = .78$

You would like to see the UTR below 1.00 and decreasing, as shown between the second and third trades. This indicates that your current loss per contract is smaller than the cumulative loss per contract. You do not want to see the UTR above 1.00 and increasing. Use the same technique for stock trades.

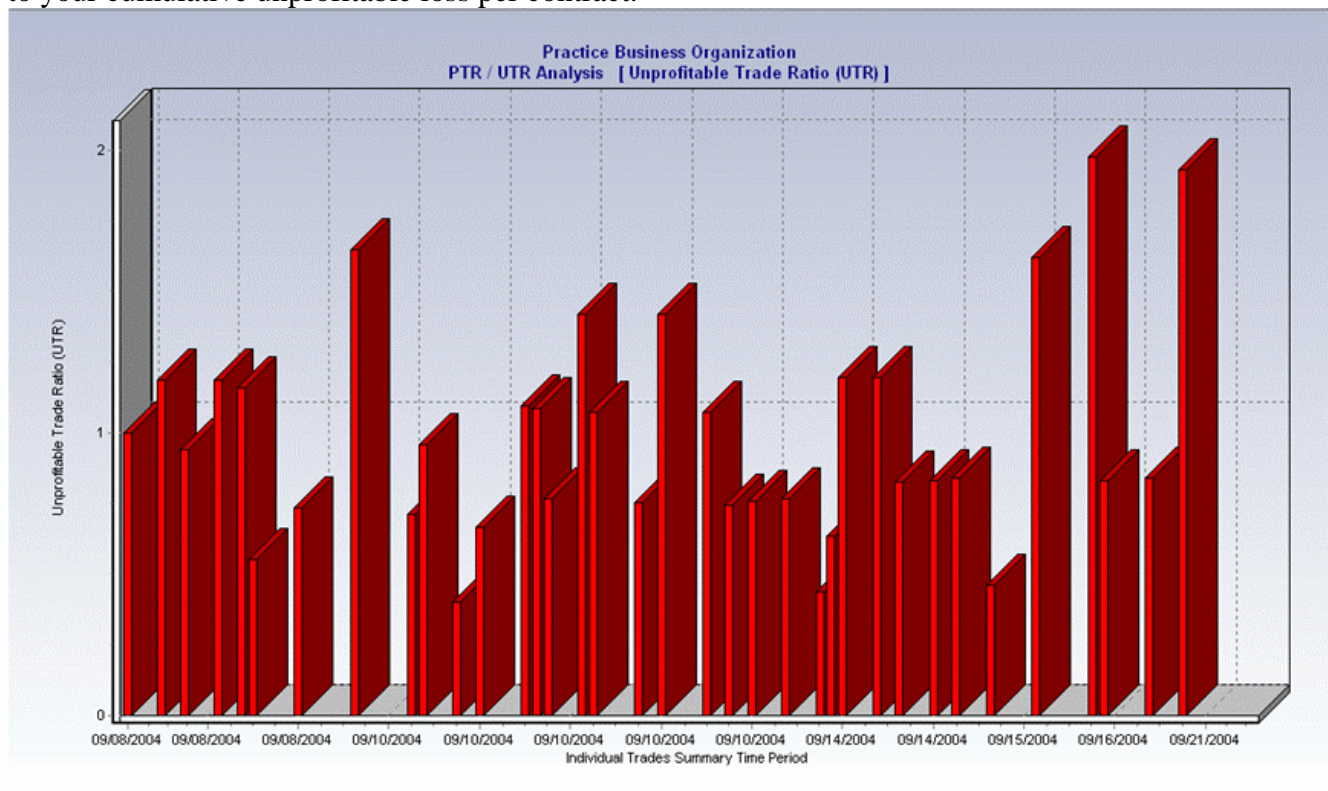
The real value of the PTR and UTR is the trend revealed by charts. Charts display the actual value of the statistic as well as the direction. You would like to see the PTR above 1.00 and increasing and the UTR below 1.00 and decreasing.

An increasing PTR and decreasing UTR indicates a trader who is becoming more efficient, and vice versa.

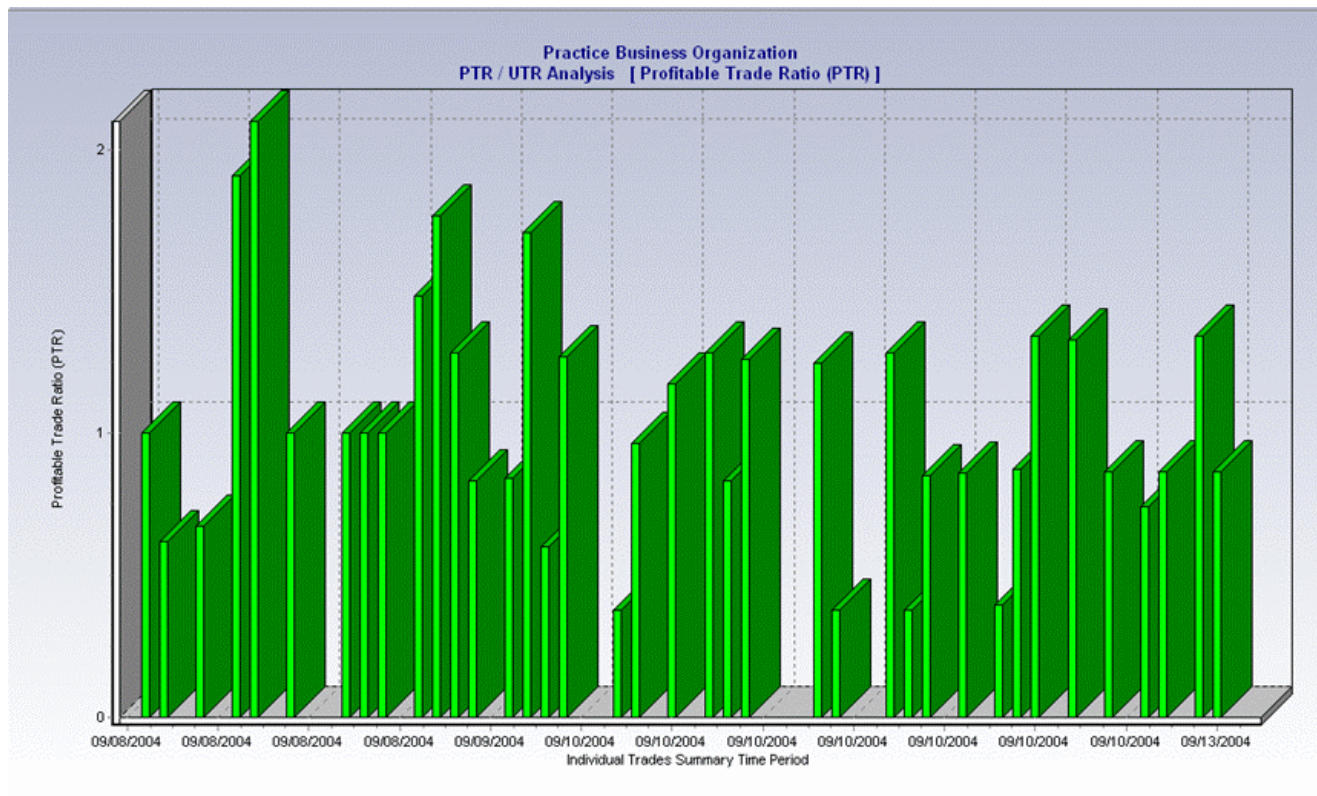
If the PTR is decreasing, try to determine why your current profit per contract is not as large as your cumulative profit per contract. Possibly you are not letting your profits run or your profit objective has been reduced compared to prior trades.

If the UTR is increasing, try to determine why your current loss per contract is larger than your cumulative loss per contract. Possibly your stop losses have gotten too large compared to prior trades.

The first image displays a graph of the UTR which is beginning to trend above 1.0, which is a warning sign that your current unprofitable loss per contract is starting to become too large compared to your cumulative unprofitable loss per contract.



The second image displays a PTR which is levelling off at about 1.0. However, you would like to see the PTR above 1.0 and increasing, which indicates you are becoming a more efficient and profitable trader.



A report which calculates all the above statistics can be seen below.

Practice Individual Trades PTR / UTR Analysis ALL Trade Dates												
Trade Date	Symbol	Pos	# Traded	\$ Profit	Profit per Contract	Cum Profit Per Contract	PTR	# Traded	\$ Loss	Loss per Contract	Cum Loss Per Contract	UTR
09/08/2004	ES	Buy	2	\$ 182	\$ 91	\$ 91	1.00	2	(\$ 318)	(\$ 159)	(\$ 159)	1.00
09/08/2004	ES	Buy	2	\$ 82	\$ 41	\$ 66	0.62	1	(\$ 209)	(\$ 209)	(\$ 176)	1.19
09/08/2004	ES	Sell	1	\$ 41	\$ 41	\$ 61	0.67	2	(\$ 318)	(\$ 159)	(\$ 169)	0.94
09/08/2004	ES	Buy	1	\$ 141	\$ 141	\$ 74	1.91	1	(\$ 209)	(\$ 209)	(\$ 176)	1.19
09/08/2004	ES	Buy	1	\$ 191	\$ 191	\$ 91	2.10	1	(\$ 209)	(\$ 209)	(\$ 180)	1.16
09/08/2004	ES	Buy	1	\$ 91	\$ 91	\$ 91	1.00	3	(\$ 252)	(\$ 84)	(\$ 152)	0.55
09/08/2004	ES	Sell	1	\$ 91	\$ 91	\$ 91	1.00	1	(\$ 109)	(\$ 109)	(\$ 148)	0.74
09/08/2004	ES	Buy	1	\$ 91	\$ 91	\$ 91	1.00	1	(\$ 109)	(\$ 109)	(\$ 148)	0.74
09/08/2004	ES	Buy	2	\$ 382	\$ 191	\$ 108	1.77	1	(\$ 259)	(\$ 259)	(\$ 157)	1.65
09/08/2004	ES	Sell	1	\$ 141	\$ 141	\$ 110	1.28	1	(\$ 259)	(\$ 259)	(\$ 157)	1.65
09/08/2004	ES	Buy	1	\$ 91	\$ 91	\$ 109	0.83	1	(\$ 259)	(\$ 259)	(\$ 157)	1.65
09/09/2004	ES	Buy	1	\$ 91	\$ 91	\$ 108	0.84	1	(\$ 259)	(\$ 259)	(\$ 157)	1.65
09/09/2004	ES	Buy	1	\$ 191	\$ 191	\$ 112	1.71	1	(\$ 259)	(\$ 259)	(\$ 157)	1.65
09/09/2004	ES	Buy	1	\$ 66	\$ 66	\$ 110	0.60	1	(\$ 259)	(\$ 259)	(\$ 157)	1.65
09/09/2004	ES	Buy	1	\$ 141	\$ 141	\$ 111	1.27	1	(\$ 259)	(\$ 259)	(\$ 157)	1.65

The professional and profitable trader always knows if he is becoming a more or less efficient trader. He also knows where his breakeven point is. Do you know how to calculate your breakeven point? Well, next article we will find out.

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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