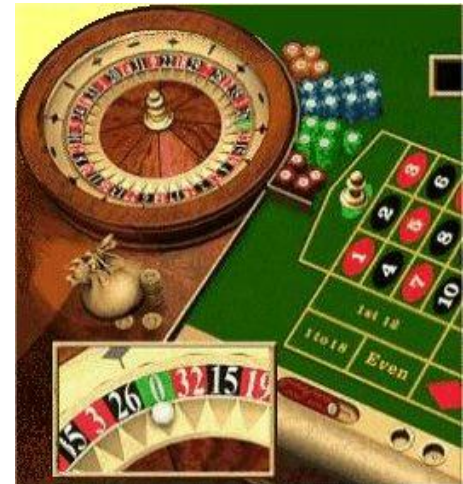




TRADING AS A BUSINESS VS. TRADING AS A GAMBLER



NetPicks, LLC

- We've Been Offering Trading Systems and Strategies Since 1996
- FOREX, FUTURES, OPTIONS
- To Give You An Idea Just How Long Ago 1996 Was...
 - AOL was THE internet leader
 - eBay & Google just launched
 - Gas averaged \$1.22 in the US
 - Alan Greenspan thought the markets were overvalued (Dow at 6,000)



*There is only one success – to be able to spend your life in your own way.
-- Christopher Morley*

The Team, We Trade Every Day...



Mark Soberman



Brian Short



Will Feibel



TJ Noonan



Mike Rykse



Bob Malinowski



Ron Weiland

*Teachers open the door, but you must enter by yourself.
-- Chinese Proverb*

Why Trading CAN Be Your Business



- Name another Business Opportunity with the following:
 - Unlimited Earnings Potential
 - Minimal Start-Up Capital
 - Controlled Risk & Reward
 - No Employees/Limited Overhead
 - You Decide Your Hours & Schedule
 - Part-Time Commitment – Full-Time Potential

If Done Right It's a Great Profession & Business...Unless You Treat it like a trip to Las Vegas

Primary Factors to Consider

- Risk Management
 - Managing your risk and reward
- Trade Psychology
 - Handling winning and losing streaks
- Account Size
 - Margin requirements and other factors
- Trading as a Business
 - Treat it as you would any start-up business!

Risk Management

Understand the Risk on Each Trade:

- Based on historical results
- Average loss per trade
- Maximum loss
- Statistical deviations, streakers and swans

Not a numbers person? You are now. There is no Business Plan without the history. Without them, you are a Gambler. Gamblers don't make money long-term.....Pro Traders Do.



Losing Streaks (Van Tharp) – Be Like a Mayan and Prepare for the Worst....

Losing Streaks

Table 6-3: Losing Streaks as a Function of Winning Percentage

System Win Percent	100%	Average	10% Probability	1% Probability	Maximum
80%	2	3	4	5 to 6	7
75%	3	3	5	6 to 7	9
70%	3	3	5 to 6	7 to 8	10
65%	3	4	6 to 7	8 to 9	13
60%	4	5	7	9 to 10	14
55%	4	5	8	10 to 11	16
50%	5	6	9	12	19
45%	6	7	10	13 to 14	22
40%	7	8	11 to 12	15 to 16	25
35%	8	9	13 to 14	18 to 19	34
30%	9	11	15 to 16	22	38
25%	10	13	18 to 19	25 to 26	41
20%	12	15	22 to 23	32	51

Other Factors for Account Size



Drawdown to Recovery

Table 6-1: Recovery after a Drawdown

Drawdowns	Gain to Recovery
5%	5.3% Gain
10%	11.1% Gain
15%	17.6% Gain
20%	25% Gain
25%	33% Gain
30%	42.9% Gain
40%	66.7% Gain
50%	100% Gain
60%	150% Gain
75%	300% Gain
90%	900% Gain

Trade Psychology

Why Do Losing Streaks Matter?

- Wins and losses occur in clusters – Euphoria – Do Your Winner Dance!

819.7	819.6	gbb		
819.7	819.6	t		
818.7	816.8	gbb		
818.7	817.6	t		
824.3	822.6	osob		
824.3	822.1	t		
822.9	820.9	b		
822.9	822.1	t		
821.2	821.1	re		
821.2	821.1	t		
832.9	832.8	b		
832.9	832.8	t		

ok	0.1	
ok	0.1	
ok	1.9	
ok	1.1	3.2
ok	1.7	
ok	2.2	
ok	2.0	
ok	0.8	
ok	0.1	
ok	0.1	6.9
ok	0.1	
ok	0.1	

Trade Psychology

Why Do Losing Streaks Matter?

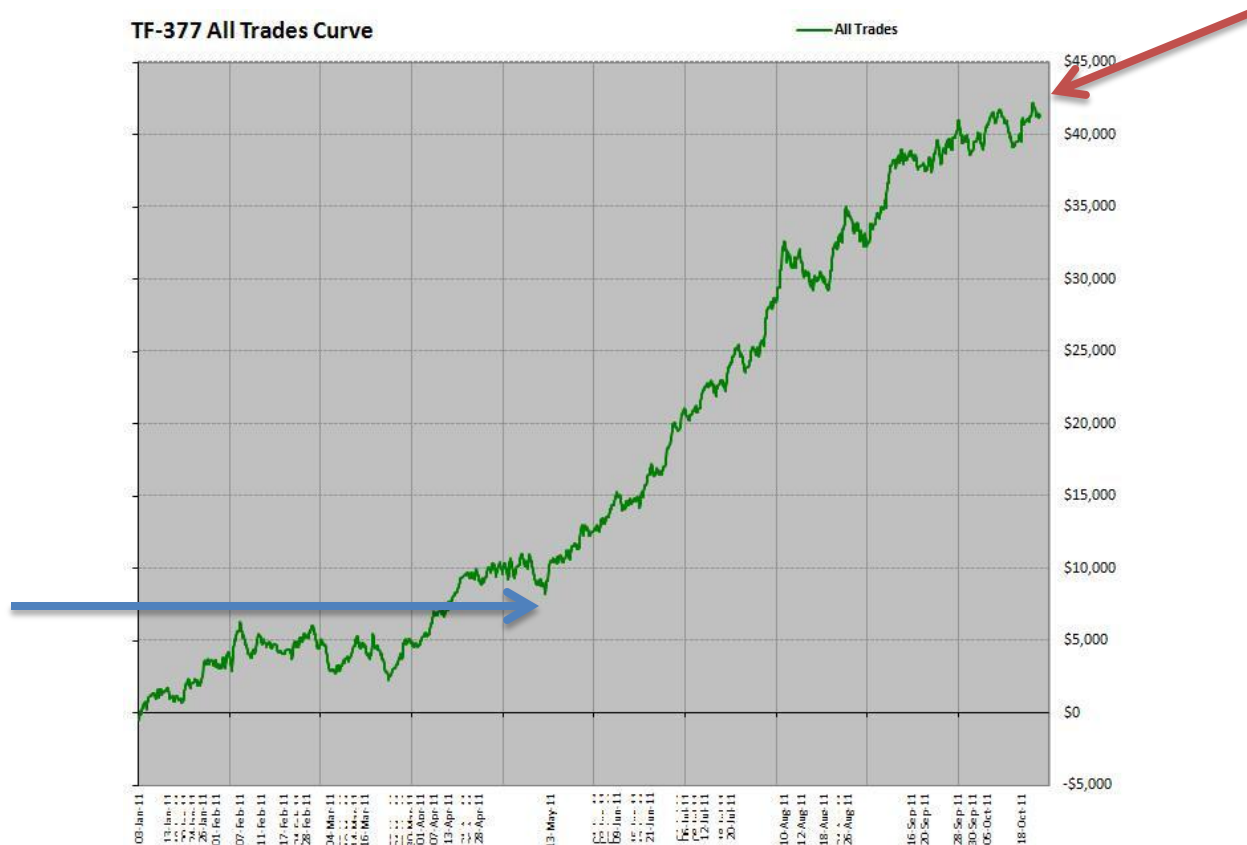
- Wins and losses occur in clusters – the world is ending and it's not December!!

					Median Pts	0.1	2.5
		t			ok	0.1	
		re	stop-rev	KeyLevel A	ok	(-1.9)	
		t			ok	(-1.9)	
847.7	849.6	osob			ok	(-1.9)	
847.7	849.6	t			ok	(-1.9)	
		re			ok	(-1.2)	
		t			ok	(-1.2)	
849.4	851.1	osob			ok	(-1.7)	
849.4	851.1	t			ok	(-1.7)	
848.9	849.8	osob			ok	(-0.9)	
848.9	849.8	t			ok	(-0.9)	
848.9	849.8	b			ok	(-0.9)	
848.9	849.8	t			ok	(-0.9)	
		b			ok	0.1	
		t			ok	0.1	(-21.0)

Trade Psychology

Why Do Losing Streaks Matter?

- Wins and losses occur in clusters – the big picture



Calculating Drawdowns

- **Drawdown = Loss per trade X Length of losing streak**
- Example: \$200 loss per trade, 65% win rate
 - 100% probability of 3 losses in a row
 - $\$200 \times 3 = \600
 - 10% probability of 7 losses in a row
 - $\$200 \times 7 = \$1,400$
 - 1% probability of 9 losses in a row
 - $\$200 \times 9 = \$1,800$

Margin Requirements

- Margin will vary by broker and over time
- Types of margin:
 - Intraday – for trades initiated and closed during regular market hours
 - Overnight – for trades initiated or held outside regular market hours
 - Initial – minimum account equity required to purchase on margin
 - Maintenance – minimum account equity to hold a position on margin

Why Does Margin Matter?

- Cannot trade without sufficient margin
- Account must be large enough to maintain margin equity after drawdowns
- Example: Crude Oil Futures/CL premarket, \$7,023 initial margin
 - 100% probability of 3 losses in a row
 - $\$7,023 + (\$200 \times 3) = \$7,623$
 - 10% probability of 7 losses in a row
 - $\$7,023 + (\$200 \times 7) = \$8,423$
 - 1% probability of 9 losses in a row
 - $\$7,023 + (\$200 \times 9) = \$8,823$



Minimum Account Size

- Minimum account size = the greater of (if possible)
 - Margin plus drawdown, or
 - Risk per trade divided by maximum risk per trade percentage
- Example: Russell e-Mini/TF, \$300 risk max, \$3,750 margin, 1% drawdown risk \$2,700
 - Margin + Drawdown = $3750 + 2700 = \$6,450$
 - Risk per trade / 2% = $300 / .02 = \$15,000$ (\$30,000 w/ 1% risk)
 - Minimum account size = $\text{Max}(6450, 15000) = \$15,000$
 - Too high? Use smaller risk profile Trade Plans – you can cut this in half

Other Factors for Account Size

- Intraday drawdowns – It Can Get Ugly
- Fundamental changes in the market – No Range, Volatility or Volume at Times
- Clusters come in clusters – Yes, It can be a Cluster xxxx – losing streaks
- Murphy's Law – Paranoia Will Set In
- Trader psychology – How long until you kick the dog?
- Lifestyle needs – That's why you're in this right?

Let's Get Ready!

- How big of an account do I need?
 - Cover margin plus drawdown
 - Short recovery from drawdown
 - Psychologically acceptable
- Our recommendation:
 - 1% to 2% of account size per trade maximum
 - Can you go higher?

Account Size for Active Trading

- Single contract US equity and interest rate futures – Active Trader Plans are about half these values so use what meets your risk capital situation best

Instrument	Range (Tics)	2% Max Risk	1% Max Risk
ES	5	\$9,375	\$18,750
TF	10	15,000	30,000
NQ	10	7,500	15,000
YM	10	7,500	15,000
US	3	14,063	28,125
TY	3	7,031	14,063



Account Size for Active Trading

- Single contract US energy and agricultural futures

Instrument	Range (Tics)	2% Max Risk	1% Max Risk
CL	10	\$15,000	\$30,000
NG	7	10,500	21,000
S	7	13,125	26,250
W	5	9,375	18,750

Account Size for Active Trading

- Foreign exchange
- As with Futures, can reduce with different Trade Plans that risk less per trade or move your Max Risk percentage higher (3% would reduce 50%) but accept drawdowns

Instrument	Range (Tics)	2% Max Risk	1% Max Risk
EURUSD full	21	\$28,350	\$56,700
EURUSD mini	21	2,835	5,670

Trading as a Business – The Fun Stuff



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- Market Analysis
 - What will you trade?
- Financial Projections
 - Can you make money?
- Initial Funding
 - Can you afford to trade?
- Capital Planning
 - How will you grow your trading business?



PREMIER
TRADER
UNIVERSITY

- Premier Trader University offers complete trading education *and* killer trading strategies to create well-rounded, financially sustainable “Lifestyle Traders”

A “Lifestyle Trader” is an individual that trades to achieve a desired standard of living

- Whether it’s...
 - An alternate source of income
 - To replace your current day job
 - A ‘backup’ plan in case of financial emergency
 - A skill to pass down to your children

Trading Futures, Forex or Stock & Options – The Choice Is Yours

Here's How It Works

Pre-Requisites

- Home-Study Format
- Basics & Fundamentals
- Goal: Get Everyone On The Same Page

Undergraduate

- Multi-Day LIVE Market Training
- ***Active Trader Systems!***
- Goal: Learn & Master the Strategies

Major

- Live Training on Your Major
- Tricks & Techniques
- Goal: Tailor Your Strategy and Trade Plan to Your Market

Thanks to You!



- As a thank you for attending today, I have THREE bonuses for you:
 1. FREE Training from the Premier Trader University pre-requisite course offering a sneak peak where you'll learn:
 - Which Market is Best For You
 - How Much Money You'll Need to Get Started
 - If It's Really Possible to Make a Living From Trading
 - How to Practice Online Without Spending Any Money
 2. The Capital Planning Spreadsheet I used today
 3. Copy of today's slides in a PDF for easy reference

Simply Type This URL Into Your Browser:

<http://www.netpicks.com/blueprints>

We'd Love To Hear From You



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- (855) 788-7881 or (214) 865-6151

