10 Steps to Create a Successful Trading Strategy

Trading Strategy

Everybody wants to be a successful trader. While there are many strategies to become a successful trader, there are 10 pivotal ways that traders can have to build a winning portfolio. This TradingSim article will give traders the top 10 strategies on how to develop a solid trading strategy, highlight 5 specific investing strategies, and will assist investors who want to choose the best stocks or other investment instruments.

Why do investors need a trading strategy?

Investors need a trading strategy to avoid emotional investments. Trading strategies are necessary to avoid irrational actions during extreme swings in the stock market. It's especially important to have a framework for trading during a bear market. Legendary investor Warren Buffett noted that investors have to remain calm to pick the best trading plan.

"Owners of stocks, however, too often let the capricious and often irrational behavior of their fellow owners cause them to behave irrationally as well, ” said Buffett.

Buffett added that an emotionless trading strategy is crucial.

” You need a stable personality. You need a temperament that neither derives great pleasure from being with the crowd or against the crowd because this is not a business where you take polls. It’s a business where you think,” added Buffett.

Having a trading strategy with predetermined rules that help investors make decisions help investors make the best choices. Here are 10 steps that will help formulate an effective trading plan.

1. Determine a trading goal.

When formulating an investment strategy, an investor should know what they want at the end of investing before they begin. If an investor has a set goal, it will give the investor more discipline to stick to them. For example, an investor may also want to set a short-term goal of buying a certain amount of shares of an in-demand stock, like Amazon(NYSE:AMZN). An investor may also set a long-term goal of increasing their portfolio by 15% over a year. A trading strategy will help an investor focus and reach that goal sooner.

2. Test a trading strategy

Once an investor has a plan, they can test it out. Backtesting a trading strategy could help test out the framework for a testing strategy. Using a simulator like TradingSim can help investors try out trading strategies before risking real capital.

Backtesting a trading strategy by analyzing the Dow Jones

3. Set aside a certain amount of time for a strategy

In addition to setting a realistic goal for trading, an investor must decide how much time they can dedicate to an investment plan. If an investor only has limited time to invest in the day, the quick action of day trading may be the best option. If investors want to take a long-term strategy, they can place trades for a longer period of time in swing trading. Investors can also determine a set time to invest each day to keep track of their investment goals.

The other key thing is making sure you spend the time to learn the basics of how to invest in the stock market with affordable introductory courses at a low price point. There is no point in spending a ton of money on anything related to the market until you feel this is something you are interested in over the long haul.

4. Determine which markets to trade.

Once a trader determines how much time to devote to trading, they should choose which market they will choose for investment. Traders may want to just focus on US stocks on the New York Stock Exchange or NASDAQ. For traders who want to explore other options, they can trade foreign exchange currency (forex) or futures.

5. Assess risk tolerance.

An investor must determine how much money they are willing to risk when placing a trade. Ideally, an investor shouldn't risk any more than 5% of available capital.

Investors can determine a risk-reward ratio as well. A risk-reward ratio can be 1:3 if an investor has a $300 maximum potentially to lose and $600 maximum potentially to gain in investments.

Brandon Pizzurro, portfolio manager of public markets at GuideStone Capital Management in Dallas, noted that risk assessment is crucial, especially in this volatile stock market.

"Investing, in general, requires an assessment of one's risk tolerance, and never is that risk tolerance tested more than in the midst of a bear market," said Pizzurro.

6. Always have a stop-loss.

Traders should only risk what they can afford to lose. Instituting a stop loss will help investors stay withing their investing limits, especially in forex. A stop-order loss is a deal to sell a stock once it reaches a certain price. By setting a stop-loss, investors can limit their exposure to risk.

For example, a trader could be trading the euro and dollar at 1.1233. The trader could promise to sell the EUR/USD when it drops below 1.12. A stop-loss can set a limit on how much an investor loses on a trade.

Famous investor Bruce Kovner, chairman of CAM Capital, noted that stop-loss orders are the best way to minimize risk.

"Whenever I enter a position, I have a predetermined stop [loss]. That is the only way I can sleep. I know where I'm getting out before I get in. The position size on a trade is determined by the stop [loss], and the stop is determined on a technical basis. I always place my stop beyond some technical barrier," said Kovner.

7. Conduct thorough research.

In addition to having set limits with investing, conducting research is key. Investors can delve into a stock's earnings report, price-to-earnings ratio, or track an investment on TradingSim's charts. By conducting thorough research, investors can build a successful trading strategy. The TradingSim chart below shows the way investors can track Apple stock.

Apple stock

8. Have a trading journal

No, the journal isn't to write about crushes. [A daily trading journal]can help an investor keep track of how the trades are going and how your plan is doing overall. A trading journal helps an investor keep track of what is working in a trading strategy and what doesn't work. Trading journals should have these main aspects.

1. **Date and time of trade.** Keep track of when trades were made. Trades made in the morning may be more beneficial to investors than trades at different times.
2. **Trace different instruments.** An investor may have capital in different instruments, like commodities and stocks. Investors can track the performance of each different instrument to determine how their trading

strategy works for each investment.
3. **Entry and exit prices.** An investor should keep track of the prices of stocks when they enter and exit trades.
4. **Results of trades.** Review the results of the trades. Investors can then go over successes and mistakes.

9. Learn from mistakes.

While checking a trading journal, an investor can notice a pattern in a trading plan-especially, when there are losses. An investor has to learn from mistakes to perfect their trading strategy. Forex trading expert Bill Lipschutz believes that losses are a natural part of trading and that investors can learn from trading losses and errors.

"I don't think you can consistently be a winning trader if you're banking on being right more than 50% of the time. You have to figure out how to make money being right only 20 to 30% of the time," said Lipschutz.

Market analyst Paul Rosenberg noted that traders often make two errors when trading.

"Poor risk management, for example, using too much leverage. Having a bad risk/reward profile on trades is a staple of poor risk management that I come across (as a rule of thumb a trader should not enter into a trade unless analysis suggests they can make at least ~$2 for every $1 risked)," said Rosenberg.

Knowledge of trading information is important. However, Rosenberg also noted that overanalysis can hinder traders as well.

"Over-complication of the analytical process. Many traders utilize too much information to arrive at decisions, which causes contradiction and indecisive behavior," said Rosenberg.

An investor can learn what worked and what didn't work from their trading strategies.

10. Keep trading.

Even if a trading strategy didn’t work, they can learn from their mistakes to continue as a trader. Investors can tweak their strategies or try a new one altogether. Traders shouldn’t get discouraged by losses. They should just re-assess their strategy and stay in the investing game. Investors should stay encouraged by remaining confident and treating investing as the serious business that it is.

Different trading strategies can lead to success

There are many different trading strategies that investors can use. Some of the most popular plans will be explored with the steps mentioned in this TradingSim article.

Day trading can be successful for traders who want quick stock action

Day trading is a popular trading strategy for investors want to make a lot of quick trades- and possibly profits- every day. Short-term trading is the essence of day trading.

Owen Murray, director of investments at Horizon Advisors, notes that day trading may pay off most during a bull market because there are greater profits.

“Day trading typically becomes very popular during bull markets, because on balance, stocks are mostly moving higher and it is easier to make profits,” said Murray.

How to have a better day trading strategy

Day trading can work for traders in a bull or bear market if they take the right precautions. There is no one right way to day trade. However, using the above steps can help create a successful trading strategy. As mentioned in an earlier [TradingSim article](), investors must treat day trading as a business. Day traders can take these steps to be a more successful trader.

Day traders can use [TradingSim's guidance]() to become a better day trader.

Determine a day trading goal.

Day traders want to make profits s quickly, so they can set a goal of trading 5 stocks or so a day. As a trader's confidence and track record grow, they can make dozens of trades a day. However, Merlin Rothfeld, an investment strategist, advises against [making so many trades in such a hurry.]()

"When I started day trading back in 1998, I was a total gunslinger, averaging 550 trades per day," said Rothfeld. "This caused me to be reckless in my trade selection and execution – not to mention that my broker was making a killing off the commissions I was paying on all those trades. "

"For this reason, I recommend that every day trader set a maximum number of trades to take in a day. Think of it like having a six-shooter: You only have six bullets in your gun, so you better make them count," added Rothfeld.

Have the capital set aside for day

trading.

While day traders may crave the excitement of making lots of trades, they must have the money to make the trades. Day trading is usually the most costly investment. The capital required to trade stocks could climb up to $25,000. Trading futures and commodities like oil may only require about $1,000 to invest in the stock market. The forex market may require about $1,000 or even less. There is no set amount for investing, but day traders shouldn't risk more than 1% of their capital on trades.

Set aside a lot of time for trades.

Day trading happens quickly all day, so day traders have to be ready to trade at a moment's notice. Traders must treat day trading as a second job and dedicate hours a day to tracking trades.

The best time to trade could possibly be when the market opens from 9:30 AM-11:30 AM EST. The first two hours of trading are often the most active, so day traders have the potential to earn the most money. The best time to trade futures is usually in the morning as well. Forex can be traded 24 hours a day because of the global trading around the clock.

Test day trading strategies often.

If traders want to try out their strategies before investing capital, backtesting day trading could be best. Day trading strategies can be tested on TradingSim before they're implemented in real life. Simulated trades can help traders analyze how well or badly their trades are doing. Testing out trades can help determine which strategy is best for day trading. For example, if an investor wants to backtest day trading Coca-Cola stock, they can use charts like the TradingSim chart below.

Coca-Cola stock

Conduct up-to-the-minute research.

Since day trading is so volatile, it's important to remain on top of financial news. By following blog posts on sites like TradingSim, day traders can stay informed on the latest financial news to make better-informed trades. Day traders should also have an up-to-date trading journal to keep track of the many trades that made.

Have stop-losses to minimize risk.

Stop-losses are important to stay ahead in trading. Kenny Polcari, senior wealth strategist at SlateStone Wealth, noted that it's important to change course, change position size, and cut losses when necessary.

“Don’t get married to a position just because you like the name. Don’t be married to it if it’s going in the wrong direction. You’ve got to be able to cut your losses and then look at it again at a different time,” said Polcari.

Dennis Dick, proprietary trader and market structure analyst at Bright Trading, notes that it’s important to minimize risk since day trading is one of the most unpredictable trading strategies.

“The goal is to try to eliminate the overall market risk, which is essential in the current market environment,” he says. “Even if a stock has good relative performance, if the overall market has a significant decline, I am likely to lose money on that trade.”

A stop-loss order on a certain stock price will ensure that investors won’t risk more than necessary while making day trades.

Practice and dedication build better day traders

Research, patience, and limiting losses are key to being a successful day trader. Trader Deyanna Angelo noted that day trading is not an easy way to get rich.

“Day trading is a very difficult performance discipline, much like becoming a professional football player or playing a musical instrument to a virtuoso level. You first need to have a natural talent, followed by years of practice,” said Angelo.

Swing trading strategy an option for investors

In addition to day trading, successful trading plans can be applied to swing trading. Swing trading is a trading strategy in which investors strike during two major swings in the stock market. They enter or exit trades when the market swings high or low. In a bull market, swing traders can go long and trade at highs. In a bear market, swing traders can go short and sell when stock prices plunge.

Swing trading is similar to day trading, because an investor holds a stock for a short period of time. However, while several day trades could be placed every day, swing trades could be placed every few day or weeks. Investor Evan Medieros noted that traders should minimize their risk while swing trading stocks.

"I risk anywhere from 0.50 to 1% per trade. Position sizing and managing individual trades include stop losses, both timed & price," said Medieros.

Similar to day trading, Medeiros noted that he has a series of stocks ready to trade over a few days.

"At any given time, I have 50 to 100 stocks on my bench that I want to get involved in once they 'set up'. So it is a combination of waiting for the setups and aligning that with my target portfolio exposure, given the market environment, "said Medieros.

Best time of day to swing trade may not be at opening bell

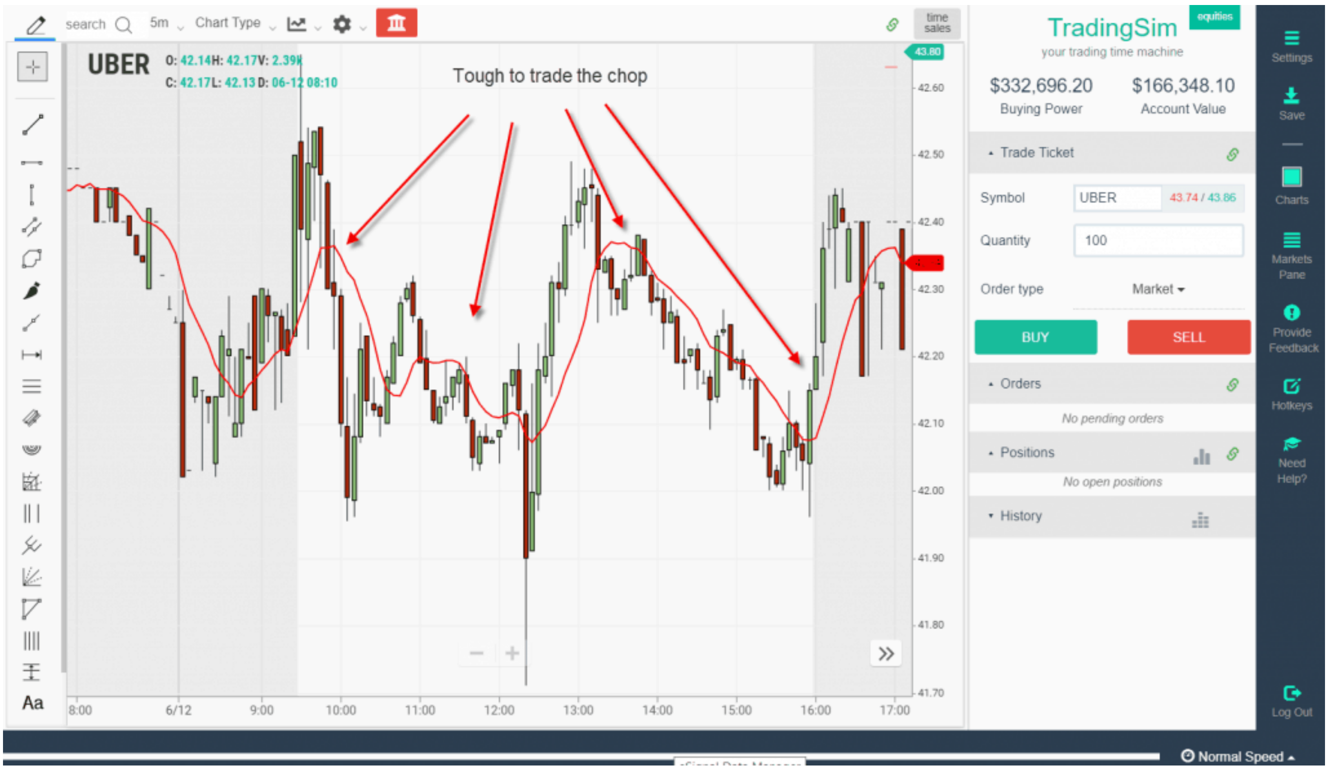
As opposed to day trading, the best time of day to swing trade may not be when the stock market opens at 9:30 EST. At the opening bell, stocks generally move higher, so that may not be the best time for swing trading. When there is a pullback between 10AM-11AM, that may be the best time for swing trading.

Use swing trading indicators

There are three main swing trading indicators that swing traders can use to monitor stocks.

1. **Moving averages**

Moving averages help investors identify or confirm trends. In a simple moving average, all the closing prices are added up for a certain number of days. After the addition, the total is divided by the same number. For example, a 10-day moving average would take the closing price of the last 10 days. It would then be added up and divided by 10 to get the average price.



10 -day moving average

2. **Relative Strength Index**

The relative strength index (RSI), which helps determine if the stock market is overbought or oversold. The RSI is on a chart of 0 to 100. The market is considered overbought if the RSI presents any number over 70. If the price is below 30, the market is considered oversold.

3. **Visual analysis indicator.**

Visual patterns on charts can help investors easily keep track of what is happening in the stock market.

With indicators and risk management, investors can make the best of swing trading. While day trading isn’t for every trader, with research and persistence, investors can try day trading as a method to potentially increase profits.

Scalping trading strategy another option for investors

In addition to switch trading, scalping trading is another short-term trading strategy that investors can use. It’s similar to day trading, but differs in an important way. Scalping make numerous trades for smaller profits. Scalping traders can profit from small price changes. Instead of holding positions for a few hours or weeks, scalpers may just hold a position for just a few minutes.

Small goals and a lot of time are key to scalp trading

Scalping is about getting smaller profits faster, so incremental goals are pivotal. Traders should start by looking for gains in the range of $0.10-$0.25.

Scalping is such a high-volume trading strategy that quickly changes. So, scalpers need a lot of spare time to monitor the markets. Watching the stock market for hours is a must to catch any slight price changes.

Scalping trading strategy has low

risk, but requires high wins

A benefit of scalping is that it is low risk. However, a trader must have a higher number of wins because the profit margin is so minuscule. Traders need a large amount of capital to enact dozens or even hundreds of trades.

Traders should make sure the risk/reward ratio is 1:1. As noted in a previous article about scalp trading, a trader shouldn't risk more than .1% of their capital on a trade.

If an investor's trade position is $100 and the stop price is $99.50, the risk and reward must equally be 50 cents. The trader should exit a trade at $100.50 to turn a profit.

Technical analysis can help scalpers

Scalpers can hone their scalping trading skills by using technical skills. Just as moving averages can help with swing trading, they can be useful with scalp trading as well. The simple moving or exponential moving average indicators show the average stock price over a particular time. The exponential moving average may be better for scalpers because it monitors price changes quicker than simple moving averages.

The Stochastic Oscillator Indicator is another way to monitor momentum. Traders use the Stochastic to predict the momentum before a price change. The Stochastic Oscillator and the exponential moving average are just two methods to analyze stocks for scalp trading.

With analysis, a lot of time to invest, and interest in incremental gains, traders can test out the scalping trading strategy.

Position trading strategy is a long-term option for traders

In contrast to scalping, long-term investors that want a longer-term trading strategy can try position trading. Short-term trading can last for minutes or hours. However, position trading can stretch for weeks, months, or even years. Position trading is a long-term stock market trading strategy in which traders want to catch long-term trends in the market.

Position trading strategy may be best for passive traders

Traders that don’t have a lot of time to invest-and more-capital- could try the position trading strategy. For traders that want to more closely emulate long-term investing, position trading could be a better option. Some position traders may just place a few big trades a year, so they can trade part-time if they want. Beginning traders that want to gently wade into trading may find position trading best for them. Position traders hold positions for a longer period of time, so more capital is required to invest.

Bear market may be good time for position trading

Ironically, a bear market may be a better time to try position trading than in bull markets. In a bull market, positions may eventually tumble in a correction. A trader placing positions at the end of a bear market may be in a better position when the stock market eventually recovers. If a position trader is patient and rides out the end of a bear market, they could potentially profit when a bull market comes around again.

Specialized position holding is key

Because a trader is holding a position for a long time, it’s pivotal that position traders have specific holdings. If a position trader focuses on one or two sectors to follow, like tech or healthcare, it will be easier to spot trends.

Position trading uses many research tools

Position trading takes a long-term view, so traders can use two types of analysis. Traders can use fundamental analysis to study earnings reports of stock and overall market trends to determine how to trade.

Position traders can also use technical analysis to monitor their positions. They can use the 200-day exponential moving average to identify long-term trends. It could possibly be a bullish signal when a price of a market rises above the 200-day average. Traders can watch the 200-day exponential moving average to determine where the market is trending.

Traders that have patience and want to minimize risk may find that position trading is the best option for them.

Trend trading may be best for long-term investors

Similar to position trading, trend trading is ideal for traders who want to hold positions for a long time. Trend traders look at a stock’s price trend over a long period of time. A trader then compares the price to broader market trends. An investor then makes a trade based on that knowledge about the market trends.

Legendary trader Paul Tudor Jones noted that the 200-day moving average indicator is important to monitor trends. Trend trading can use the 200-day moving average indicator to watch assets.

“My metric for everything I look at is the 200-day moving average of closing prices. I’ve seen too many things go to zero, stocks, and commodities. The whole trick in investing is: ‘How do I keep from losing everything?’ If you use the 200-day moving average rule, then you get out. You play defense, and you get out, ” said Tudor Jones.

Trend trading requires fewer trades

Google stock the week of March 19

Similar to position trading, few trades are required to start trend trading. A trend trader could just make about a dozen trades a year to remain active.

Because turtle trading is a slow and steady process, trades can be made at any time. There is no rush at the beginning of the day like day trading. There is also no need to wait for a pullback later in the trading day, such as with swing trading. Whether it’s at opening bell in the US stock market or after-hours with forex, turtle trading has a flexible timetable.

“The trend is your friend” in this trading strategy

Financial adviser Ali Hashemian noted that trend trading may be best for trading commodities like oil or gold. The trends in those commodities may be easier to track than stocks, so trend trading may be best for commodities.

“Trend trading is commonly utilized by commodity traders. Most often this trading style will include price calculations, moving averages, and take-profit or stop-loss provisions. Traders will use price movement and technical tools to determine trading signals,” said Hashemian.

Trend trade signals and indicators help traders make best picks

A number of different trade signals can be used, and traditionally there are set rules and risk controls put into place when using this trading strategy. Other than the moving average, there’s the Moving Average Convergence Divergence (MACD). If the MACD moves above 0, that’s usually a sign to buy. If the MACD moves below 0, that’s usually a bearish sign for trend traders to sell their assets.

The aforementioned relative strength index (RSI) signals a buy trend if it moves above 50. An on-balance volume indicator can be used to measure an asset’s trading volume. Joseph Granville, the developer of the metric, believed that an increased volume in an asset means a bullish or bearish turn.

Risk management key to trend trading

Famed trend trader Paul Tudor Jones also advises having a “5:1 risk /reward. Five to one means I’m risking one dollar to make five. What five to one does is allow you to have a hit ratio of 20%”, said Tudor Jones. Minimizing risk is key to get ahead in trend trading. A maximum 2% stop is also advisable for beginning turtle traders.

Turtle trading is most famous form of trend trading

Turtle trading is the most famous form of trend trading. The popular method emphasizes a purely technical and methodical approach to trades. Financial analyst Zaheer Anwari noted that turtle trading can pay off if traders are patient and emotionally detached while making trades.

“With time and experience, it becomes a detached, robotic and stress-free approach to the markets, as the initial risk is always very low and well managed and only the very best trades are taken,” said Anwari.

Turtle trading could be best for traders who want to bide their time in the markets. The turtle trading strategy could also work traders who want or need set trading rules.

Different trading strategies can help create success

There is no one trading strategy that will create a successful framework for a trading strategy. Just as the stock market is different every day, so is a trader. What may work one day may change the next. However, the 10 steps and specific trading strategies will help traders make better choices.

TradingSim’s charts and articles can help beginning or experienced traders develop the best trading strategies to navigate the volatile stock market. With a methodical framework that makes room for flexibility, traders could find a trading strategy that works best for them.