

Plan Your Trade & Trade Your Plan-Yet Another Lesson In NOT Micromanaging

Novice traders think pros know exactly when to get in and exactly when to get out. After all, trading is an active verb. The truth is, they don't. No one knows *exactly* what a market will do. Not you, not me, and certainly not the television gurus who scream a lot.

The best any of us has is an educated guess based on years and years of experience.

The Setup

Graham Packaging Company (GRM) recently set up as what I thought was a perfect setup. The stock was in an accelerating trend and then pulled back. It was a relatively new issue so there wasn't any trading above its current levels—in other words, no bad memories.



GRM sets up as a perfect setup on 02/09/11

Not a perfect world?

The stock triggers and then begins to move slightly in our favor—so far, so good. At this rate, the initial profit target will be hit in just a few days.

Unfortunately, it then died. As you would imagine, the emails then began to flow in. Dave, "GRM isn't doing anything. Should we exit?" The old, "when in doubt, get out" me would have said yes. Get out and

start looking for something better. The older, greyer, larger, and somewhat wiser (although my wife Marcy will argue that in my case, age doesn't guarantee maturity), stays the course. If you honor your stops, then barring overnight gaps, your risk is defined if the position doesn't work.



In spite of being a perfect setup, GRM trades sideways

The Secret To Trading

You have to position yourself to have 1. Limited losses 2. Unlimited gains.

By the way, you system people might want to write that down. But I digress.

More Anguish

The emails continued to flow including this one on Monday (04/11/11):

"What do you think about GRM ? I am concerned with the fact what it is going down. What is your opinion?"

And my answer:

"I no longer micromanage positions. I just let the stop take me out. Yes, I'd prefer if the stock were going higher but I'm just going to let the market take me out. As I preach, micromanagement often pays over the short-term (e.g. GRM might turn into a losing trade) but never longer-term (you'll miss stocks like FTK, OAS, XL, PSLV, MOBI etc...)"

Two days later, the stock is the target of a buyout:



There Are No Guarantees In Trading (Or Life For That Matter)

Of course by staying the course not all of your stocks will be bought out. However, as you can see, if exit instead of following your plan, you will miss big winners for when they do.

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