WANDERER **FINANCIAL'S**

SIMPLE STOCK TRADING

Pre-Trade Checklist

There are two parts to trading – **WHAT** to trade, and the mechanics of **HOW** to trade. This pre-trade checklist is designed to ensure the stock you are interested in meets the qualifications necessary to be a trade setup worthy of taking. We want to make sure you have the proper reward-to-risk ratio so you can accurately calculate position size and determine your exits. Just like a pre-flight checklist, this ensures that you don't overlook something crucial in the heat of the moment.

GO TO CHECKLIST

Stop Price

This is probably the most important part of the trade. Everyone enters a trade expecting it to work out, but the fact is, nobody knows the future. The moment you enter a trade, you lose control over what the price does next. It could go up, stay the same, or go down. The time to decide where a trade isn't working is before you enter the trade. The worst time to decide when to exit a trade is while you are suffering a loss. Humans don't like losing, and exiting a trade at a loss is painful. However, if you don't have a plan to exit at a certain price level, it is only a matter of time before a trade goes against you and continues to go against you while you look on helplessly. So, before real money is at stake, look at the chart. Look at previous support levels. Look at moving averages. Decide what price determines the trade is doing something different than what you expected. Now go a couple of pennies below that, and you have your **stop price**. (We have an article on our website titled **Defining Stops** that goes into even greater detail.)

To begin filling in your worksheet, enter the Stock Symbol at the top in the box. Enter the current price of the stock on line A. (This will also be your purchase price.) Enter your stop price on line B.

Risk-per-share

Now that we know where our stop is, we can see what our **risk-per-share** is. To do that, subtract the stop price from the current price and you have risk-per-share. Now that we know how much risk is involved, next, we'll look at the potential reward. For that, we need to set a **target price.**

Enter your risk-per-share on line C of the worksheet. To calculate it, subtract line B from Line A.

Target Price

Let's choose our target just like we chose our stop. Look for former resistance levels or major moving averages. Look at former vertical moves to get an idea of what the stock is capable of. Does it rise 20% every time it breaks out of a horizontal channel? Does it have a habit of rising to its 200-DMA on a cyclical basis? Whatever it is, be realistic and choose a target price that you believe the stock has a reasonable chance to reach.

Enter your target price on line D of the worksheet.

Reward-per-share

Now that we know the current price and the target price, we can calculate the **reward-per-share**. We want to see how much money we stand to make per share if we are correct and the stock reaches its target. To calculate reward-per-share, subtract the current price from the target price.

Enter reward-per-share on line E of the worksheet. To calculate it, subtract line A from line D.

Reward-to-risk ratio i.e. Risk/Reward Ratio

We know what our potential risk is if we are wrong, and we know what our potential reward is if we are right. Imagine 50% of the time we are right, and 50% of the time we are wrong. We would break even, right? Not if our wins are bigger than our losses. Although it is commonly referred to as the risk/reward ratio, we prefer to flip it around and calculate the **reward-to-risk ratio** as it is far more reflective of our goals. To get the reward-to-risk ratio, divide the reward-per-share by the risk-per-share. Is the reward at least two times the risk? Remember, we don't know the future, so we can realistically expect to be right only half the time, and sometimes even less. That means in order to make any profit, our reward when we are right, must be larger than the risk we accept when we are wrong. That's why we like to set the minimum reward-to-risk ratio at 2:1.

Enter reward-to-risk ratio on line R of the worksheet. To calculate it, divide line E by line C.

Maximum Portfolio Risk

By now it should be clear that we don't know the future. That means we are going to be wrong many times when we try to predict it by guessing a stock's next move. Sometimes we will be wrong several times in a row. To protect our portfolio from crippling losses, we need to set a **maximum level of portfolio risk** on any single trade. We typically won't risk more than 1% on a single trade. That means we will not risk more than $1000 on a $100,000 account, no matter how appealing a trade setup may look. "Let it all ride" does not apply here. Whether you are willing to risk more than 1% is up to you, but whatever your level of risk, do the math on every trade: Multiply your total portfolio value by whatever percent you are willing to risk, and write the answer down.

Enter your total portfolio size on line G of the worksheet. Enter your Maximum % of portfolio to risk (typically 1%) on line H. To calculate it, multiply G by H. Enter that number on line I to find the Maximum dollar amount of your portfolio that will be at risk.

Calculate Total Risk

Now that we know what the maximum tolerable risk to our portfolio for the trade is, we can calculate how many shares we can buy to stay within our risk parameter. This requires another simple math equation. Take your maximum allowable portfolio risk and divide it by the maximum risk per share that you calculated earlier. As long as you don't buy more shares than you've calculated, you won't lose more than you bargained for.

Enter your maximum shares to purchase on line J of the worksheet. To calculate it, divide line I by line C.

Here's an example to walk you through using sample stock XYZ:

XYZ is currently trading at $100 share, its 50-DMA is $98.03 share, and its 200-DMA is $106 share. Assume we have a portfolio worth $100,000 and the maximum we are willing to risk on any single trade is 1%. Now let's do some calculating.

Stock Symbol				XYZ
A)	Purchase Price	(current price)		$100
B)	Stop Price			$98
C)	Risk per share		(A-B)	$2
D)	Target price			$106
E)	Reward per share		(D-A)	$6
F)	Reward to risk ratio		(E/C)	3
G)	Portfolio size			$100,000
H)	Maximum % of portfolio to risk			1%
I)	Maximum $ amount of Portfolio at risk		(G*H)	$1000
J)	Number of shares to purchase		(I/C)	500

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GO TO WORKSHEET

WANDERER **FINANCIAL'S** SIMPLE STOCK TRADING **PRE-TRADE WORKSHEET**

Stock Symbol				_____
A)	Purchase Price	(current price)		_____
B)	Stop Price			_____
C)	Risk per share		(A-B)	_____
D)	Target price			_____
E)	Reward per share		(D-A)	_____
F)	Reward to risk ratio		(E/C)	_____
G)	Portfolio size			_____
H)	Maximum % of portfolio to risk			_____
I)	Maximum $ amount of Portfolio at risk		(G*H)	_____
J)	Number of shares to purchase		(I/C)	_____

*All investments involve risk, including loss of principal. This checklist is a copy of our Wanderer Financial Stock Trading Risk Management Calculator that our subscribers can access on their dashboard as part of their **basic subscription**.*

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Stock Symbol				_____
A)	Purchase Price	(current price)		_____
B)	Stop Price			_____
C)	Risk per share		(A-B)	_____
D)	Target price			_____
E)	Reward per share		(D-A)	_____
F)	Reward to risk ratio		(E/C)	_____
G)	Portfolio size			_____
H)	Maximum % of portfolio to risk			_____
I)	Maximum $ amount of Portfolio at risk		(G*H)	_____
J)	Number of shares to purchase		(I/C)	_____

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