

## Trading Journals That Work

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In an article for the [Trade2Win](#) website that should appear shortly, I review five of the common mistakes that traders make when utilizing trading journals. My experience is that few strategies are as promising—and few so misunderstood and misused—as trading journals. Here I'd like to amplify some of my remarks in the Trade2Win article and make five suggestions for the creation and maintenance of a trading journal:

1. *Make sure the journal includes observations about you and your trading **and** about the markets themselves.* I've found that trader journals usually are skewed toward self-analysis and include little in the way of market observation. When I began as a trader, I printed out intraday charts of each day's action and wrote comments on these, pointing out the patterns that I wanted to watch for in the future. After doing this for months, I sensitized myself to the point where I could see the patterns emerging in real time. The trading journal is a learning tool and a great mechanism for training your eye to see the setups you want to be trading.
2. *Make sure the journal includes observations about your best trades.* As I emphasized in my book, the idea is to discover the trader that you are when you're at your best. Many traders use the journal as a means of self-criticism, and they only journal when they're having problems in the market. Over time, you want to isolate what you're doing when you're making money, create a model of those success elements, and then rehearse them so that they become habits. The journal can be a tool for discovery, helping you find out what you do well.
3. *Make sure the journal truly prepares you for the coming trading day.* Many times journals chronicle what has happened in the past, but do not include concrete plans for the next day's trade. If you run statistical analyses to determine if there is an edge the next day, these should be part of the journal. If there are setups that have been working in the recent market (sectors that are leading your market; intermarket relationships), these go in the journal as well. The idea, as I mentioned in the article, is to make your journal your business plan for the day.
4. *Make sure the journal outlines specific steps for improvement.* It is not enough to write vague generalities, such as "I need to hold my winners longer" or "I need to stick with my discipline". Identifying specific steps you will take to hold winners (proper setting of profit targets, self-control strategies, etc.) or maintain discipline (risk management, taking breaks, etc.) makes the journal a game plan for the next day. Your journal, outlining how you'll approach the market—and how you'll

approach yourself—each trading session will allow you to review each day and see if you met your goals. Such review is an essential step in the kind of continuous improvement that marks winners across all disciplines.

5. *Make sure the journal includes performance metrics.* Some of the ones I prefer are:

- ❑ Number of long and short trades – I correlate this to the trend condition of the market to see if I’m trading with the current or against it; if I’m trading in a one-sided way in a range-bound market. The number of trades also tells me if I’m overtrading.
- ❑ Number of winning and losing trades – When I’m trading well, I have more winning trades than losers by a reasonably healthy margin. When the ratio dips for more than a short time period, I need to re-evaluate my trading and my trading strategies.
- ❑ Time holding trades – I’m a short-term trader, and I tend to have a relatively narrow time band in which I hold trades. Moving beyond that band tells me I’m either cutting trades short or going for home runs—and neither of those have worked for me in the past.
- ❑ Time holding losing trades versus winners – It is very hard to make money over time by holding losers. Eventually, the size of the losers becomes greater than the winners so that even a trader who has more winning trades than losers can end up in the red.
- ❑ Profit/Loss broken down by long and short trades and broken down by market condition. This tells me if I’m trading ranges better than breakout movements; whether I’m doing better on the long side or the short side. If my performance is significantly worse in one mode than another, I start to examine my trading for needed improvements.

By now you’re probably getting the idea that the journal is a time-intensive process. That’s exactly right. Keeping a journal is the equivalent of an athlete’s practice: it’s not at all unusual to spend far more time training for an event than actually participating in it. If your journal is a hurriedly scribbled paragraph per day, the odds are good that it lacks the specifics you need to accurately assess what you’re doing well and what needs improvement. For full-time traders, trading is a business. The journal is a business plan. The right plan, executed faithfully, can be the difference between success and failure in any endeavor.

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