

# Getting A Measure Of Your Trading Performance



*When you are asked the question 'How is your trading going?' what would your reply be, and on what evidence/data is that reply based? Whether you answer 'alright', 'good', 'OK', 'great' or 'not so well', I would hazard a guess that for most of you, as is the case with most traders, that the key driver behind your analysis of your performance is your P&L. Take a moment now to consider this question: If you didn't get to see your P&L, how would you know how well you're trading?*

■ For most traders P&L is *the* measure of trading performance and as the bottom line measure, it is obviously significant. However, let's go back to the question...how would you measure your performance other than using P&L? What measures do you already have in place? How about numbers and percentages of winners, losers, scratches, average winner and average loser; time in trade, number of longs versus shorts, biggest period of drawdown, levels of discipline maintained, levels of focus or confidence in execution?

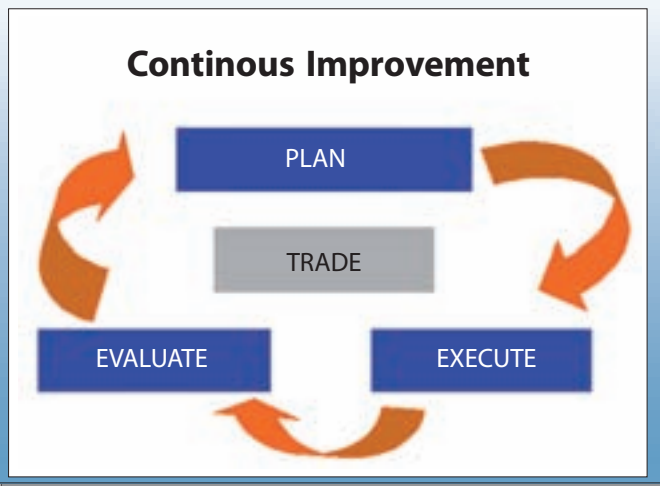
Here is the result of a football game: United 1 City 0. What does that tell us? Well, that United won, City lost. And that United scored one goal and that City didn't score at all. Is the score an absolute measurement of both teams' performances? If we wanted to find out more about that game, wouldn't it be great to know how many shots on goal each team had? How much possession did each team have?

Was a full-strength team fielded? Number of free kicks conceded/awarded; passing success rate; referee's decisions etc. In golf, greens in regulation, putts per round, holes parred, and handicap. In tennis, you would want to know the winners, how many forced errors, and percentage of first serves in. In the case of Formula 1, telemetry metrics are widely used to assess and improve performance. When we have

## Measuring Market Conditions

Market conditions can be recorded simply and objectively in terms of volume, range, whether trending (and in which direction) or ranging, nature of the participants, events (economic announcements/speakers), as well as on the basis of more general subjective opinions such as quiet, busy, choppy etc.

## F1) Performance-Cycle



access to these performance measurements, we can get a much clearer picture of the game, can't we? Importantly for the individuals and teams, by looking at such statistics they can look at ways to improve their game and can measure whether they have achieved their goals or not.

### The Need for Evaluation and Analysis

In sports, statistics and performance measures are now the norm, and seen as critical to performance improvement. As a former consultant (mental skills coach) for the Rugby Football League, I was involved with the preparation of the junior national teams and was always impressed by the professionalism of the set-up, and particularly by their use of performance analysts who videoed and tagged (recorded passes, tackles, tries etc made by a player) every game and practice session, and then prepared a personal video for each player of their performance, which was viewed by the player, coach, and the analyst. What a fantastic feedback mechanism - and it has made a huge impact on the progress and the performance of the players.

Is that surprising? No. Is it surprising that very few traders – and I work with traders at retail, independent proprietary and bank levels – keep any form of real performance metrics and measures other than P&L?...yes!

## Example Performance Metrics

- Number of trades placed
- Number and/or percentage of winners/losers/scratches
- Average winner (monetary amount)
- Average loser (monetary amount)
- Average winner/average loser
- Number of longs v shorts
- Average time in trade
- Time of day and number of trades placed
- Expectancy  
(% of winners x average winner) – (% of losers x average loser)

*„Feedback is the breakfast of champions“ Jim Rohn*

Evaluation is critical to achieving your full potential as a trader. Past performance is essential to record, and to evaluate your performance. It is a key component of the performance cycle. Trade logs, daily evaluation and journaling are recognised by all trading coaches and trading psychologists as being *critical* to improving performance. Evaluation is, however, often underrated by traders with most traders being consumed with execution and spending time on planning and preparation.

A second „danger“ in using P&L as your key performance benchmark is that it does not take into account the two key components in the trading equation, you and the markets. Your P&L is a reflection of how YOU have traded the MARKETS. So wouldn't it make sense to evaluate market conditions, and how you have traded, alongside P&L?

### **M + T = P&L**

**(How the markets traded PLUS how you traded the markets = P&L)**

Just as the score of a game/match is the result of the two players/teams, your P&L is the result of those two key factors.

Thirdly, when you use P&L as your sole or primary performance measure, it is easy to get caught in the trap of equating aspects such as confidence and self-worth to your P&L results, which can be an underlying cause of the emotional rollercoaster that many traders experience. Your P&L is not you, and is not your trading performance. It is however, the outcome of your trading performance and behaviours within the prevailing market conditions.

## Sample Process Goals/Measures

- Planning and Preparation
- Evaluation
- Market Monitoring
- Trade Selection
- Trade Management
- Trade Exits
- Mental State/Emotional Control (Focus, Confidence, Patience, Discipline)
- Physical State (Energy, Health and Well-being)
- Learning and Education (Reading, Courses, Websites)

## The Three Categories of Performance Measures

What about in terms of your trading? Apart from your P&L, what other aspects can be measured that might be useful? What feedback can you get about how well you are trading? There are three key categories of performance measures:

- Outcome
- Performance
- Process

When we consider the results of a game/trading day, we are looking at the outcome. This is the simplest way to measure performance, and is often the most widely used, and yet not necessarily the most useful in terms of improving performance. I would like to point out that too strong a focus on outcome is one of the biggest causes of performance anxiety in sport, and in trading too strong a P&L focus prevents many traders from achieving their best possible results.

What else can we measure? After outcome, we can look at performance measures. In sport these include the types of statistics I have provided examples of in the earlier football, golf and tennis analogies. In trading aspects such as number of ticks/pips made, number of and percentage of winners, losers, scratches, round turns, average winner and loser can all be good performance measures, or often termed metrics. The advantage of looking at performance measures is that our ability to alter them is far more under our own control. They are essentially the DNA of the outcome. The outcome of any event is largely influenced by others, in sports this could be the other team/competitors, and in trading obviously the market.

What else can we measure? Well, at the opposite end of the outcome is the process, i.e. the how. What is covered in process? Well, in sport it would include the application of tactics, maintaining positive psychology, nutritional strategies, warming up and cooling down, focus on performance of particular skills etc. In trading this would cover aspects such as preparation and planning, evaluation, trade logs, energy management, emotional state control, trade entry, management and exits etc. Process goals are the most controllable aspect of our performance, and the least widely used and considered

## The Fundamentals Of Peak Performance

1. Focus On The Process
2. Control The Controllables

## An Example Of Using Measured Process Goals

Date	Monday 2 <sup>nd</sup> July	Monday 9 <sup>th</sup> July
Plan/Prep	5	5
Trade Selection	4	3
Trade Management	4	3
Trade Exits	4	2
Mental State	4	3
Physical State	5	4
Evaluation	5	4
Daily Process Score	31	24

(This trader is scoring each category out of 5, giving a maximum of 35)

in trading. Identifying what the key processes of trading well are, and then monitoring and measuring them can be an excellent way of improving performance over time.

The lower down the measure is in the list, the more control we have over it, but the less exciting it probably sounds when you talk about it! However, let's recognise that process measures/actions are directly under our control, are easier to improve on, and ultimately determine how well we trade, and the outcome we get. In performance psychology the phrase *Control The Controllables* is widely used, and is considered a key building block for anyone looking to achieve their best possible outcomes.

Process measures can be difficult to assess as they are often less tangible in nature. However, when you start to consider at a basic level - Did I do my preparation, yes or no? How many times this week did I do it/didn't I do it? How was my trade management perhaps, rated on a scale of 1-5? - you can soon find simple ways to measure your trading processes, and in so doing, you are actually measuring HOW you are trading, and therefore your actual trading performance.

Having a combination of outcome, performance and process measures will give you the best possible picture of how you are actually trading. Ever seen a team win narrowly who didn't play well? Ever seen a team win significantly but having played below their best? Ever seen a team lose but play really well? Ever traded well and made less money or even lost money in comparison to a time when you didn't trade as well? Outcome measures alone are not enough to assess and evaluate trading performance.

There is a great phrase that says, "What gets measured gets done." Once you begin to measure your performance you will naturally want to improve it, and the beauty of performance and process measures is that they are more under your control and therefore easier to improve.

## Developing Your Own Trading Evaluation Process

'What gets measured gets done'. What aspects of your trading can

## Designing Your Trading Evaluation Process

1. Decide on what you will measure - what will be useful for you to know about your trading?
2. Decide on how you will capture the data.
3. Decide on the time frame on which you will evaluate.

## Performance Analysis/Evaluation Headings

1. Outcome : P&L
2. Performance Metrics
3. Trader Processes
4. Market Conditions
5. Summary Evaluation
  - What has gone well?
  - Where are the areas for improvement?
  - What action will be taken?

you measure? How and when will you assess them? Take some time to consider your performance and process measures, put them in place, monitor and assess them, and then decide on what time frame you will review them, perhaps a mixture of daily, weekly and monthly reviews, dependent on the time frames you trade and the number of trades you place.

Interestingly, one of the arguments, or barriers that traders often put in the way of keeping trade logs, or evaluating their trading, is the time it takes. Evaluation does not have to be time-consuming, with the use of spreadsheets and computers; however, there is a time requirement, or rather, a time investment. Time spent on evaluating is an investment in that it helps to develop and improve performance, and therefore P&L. It tells you in numerical terms how you are actually performing, which can be different from how you think you are doing! It can help you to identify patterns, both useful and limiting, in your trading, which, if acted upon, will impact your profitability.

One solution to the problem of time is the introduction of trading analysis software such as Trader DNA which through an online portal allows you to download your trading data and gain instant access to a very large number of trading metrics, to view them in various combinations, and see them visually and graphically. The speed and efficiency of such programs, and the range and depth of information that they provide make for a very useful addition to the trading armoury.

The question, when it comes to evaluating your trading is not really one of - do I have time, or if using software, can I afford to, but rather, can you afford (in terms of either time or money) not to?

## Steve Ward

Steve Ward is the Director of Performance and Development for Tradercourse, a specialist trader training consultancy. Steve has successfully worked with hundreds of traders as well as leading trading companies and institutions across the UK, Europe, and USA. Website: [www.tradercourse.com](http://www.tradercourse.com). He can be reached at [steve.ward@tradercourse.com](mailto:steve.ward@tradercourse.com).

