

# The Discipline Of Journaling For Traders

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## 1 Introduction

Journaling is an important practice with broad significance and is applied to many situations but the purpose is always to record information for future reference.

The structure of journals can vary widely. They range from completely unstructured, in the case of a personal diary, to incredibly rigid, such as the maintenance logs of a nuclear power plant. But they all serve as a record.

For a disciplined trader, a well planned and rigorously maintained journal can be an invaluable tool. Among other things, it can be used to evaluate and readjust the underlying trading plan, provide insight into emotional challenges and for some, simply knowing that a trade will have to be journaled can provide the motivation to avoid making a poor decision.

But with all tools, a journal is only as good as the operator. And in this case the curve is incredibly steep, due to both the lack of general structure and the very personal nature of the trading process.

With these challenges in mind, this guide was created.

Applied effectively, the impact of these techniques on your trading will be stunning. They will allow you to precisely identify what is working and what is not, which will take the guess work out of evaluating your trading plan.

## 2 Why Journal?

With all of the talk of “Holy Grail” algorithms, a simple truth is often overlooked: trading is an art. There is no “right” way to trade and it is up to each trader to chart their own course. High frequency trading programs and forex robots make it seem like all you have to do is evaluate the available information without emotion and make the trade with the highest probability of success. This is true but where the art comes in is what information you evaluate and how.

So why should you journal? Because it is the easiest way to become an expert. Without a written record of your trading experiences, you will be left to rely on your memory. A memory which will be clouded with emotion, lacking many important details and often incomplete or confused.

And records keep us honest. In the absence of a verifiable explanation for a problem, it is human nature to pick an explanation which make us feel best about ourselves. Which is why traders can go from telling people how brilliant they are one week to how the market cheated them the next. This sort of emotional justification actively prevents the honest accounting required to learn and grow, and history predictably repeats itself.

Becoming the expert trader we all want to be is a long journey but how long is entirely dependent on the path you choose. In scientific research, keeping accurate, thorough and complete experimental notebooks is of utmost importance. So much so that these records are often the most valuable assets of R&D companies. If you are serious about trading success, you should approach your

trading journal with no less discipline and rigor.  
Because what you record in it could prove to be at least as valuable.

### 3 In The Beginning

History and popular culture are littered with wise sayings which can generally be paraphrased as “shut up and start already”. For the solution to be so commonly discussed, the problem must be universal. And the problem is that starting something new is anxiety producing. What if I don't record the right information and I have to change things later? What if I record too much and journaling takes forever? What if I forget to record a trade? What if I never actually use the journal for anything? And so on.

Let me save you some time. You won't know how to journal effectively until you've started journaling, so accept that you will in all likelihood make mistakes and resolve to do the best that you can.

The place to begin is understanding how the different pieces of the trading process fit together. Things can be broken down nicely into planning, trading, recording and analyzing. The trading plan provides the guidance on how trading decisions should be made and needs to be in place prior to trading. Without a plan, trading will be reckless and uncontrolled. Once you have a plan then trading can begin, whether it is on paper or from a trading account the process will be the same. Journaling should happen throughout the trading process, recording pieces of information that you've identified as important as you become aware of it. The records are of minimal value if they are never used, so the journal needs to be reviewed periodically and analyzed to evaluate the trading process.

As the journal gets reviewed, you will develop insights which can be used to refine your trading plan or how it is followed. And this process of planning, trading and evaluating is how you will continue to grow as a trader.

### 4 What To Journal

One of the most common questions about journaling is what information should be recorded. This is because there are no satisfying answers to this question.

There is no cookie cutter formula for a trading journal, the motivations for journaling are very personal and the process needs to reflect that. Being an expert means knowing and understanding things in a way that nobody else does, and it follows that to varying degrees all experts are self taught. The contents of your trading journal will be critical for becoming an expert trader. When you first start journaling, it is a good idea to err on the side of including too much information. Focus on the core decision making process and include anything you suspect might be useful or important. As you go back and analyze the information, it should start becoming clear what information is important and what is not. But it is easy to assume things aren't useful, so be slow to cut things out. As you decide things are no longer useful to include, you may be identifying additional things that will be good to record.

The types of information to record can be divided into three categories: the personal, the general and the trading.

#### The Personal

This is notable information that is specific to you. Emotional state is one of the more common things to include. A schedule indicating how the trading day was spent can be very useful for identifying a lack of discipline and understanding how to improve. If a decision was made not to trade on a given day, this could be useful information. Similarly, decisions to pass on trades that meet the criterion in your plan can be indicated and justified (there is no need to document trades you take that don't fit with your plan because you will not make any). Recording when modifications to the trading plan are made will be critical to evaluating the impact of those changes.

There is a lot more to trading than simply identifying and executing trades but it is easy to overlook these details. Unless you understand how you trade, you will be powerless to improve. This information is also valuable for holding yourself accountable and improving your discipline.

#### The General

This is notable big picture information. Major events, like earnings reports or changes in the Fed rate, can be important to note. Including intra day charts

for securities you track and relevant indices can be helpful but charts require subjective analysis so OHLC prices should be considered as well.

General information provides context for what is happening in your trading but can be challenging to use effectively. Avoid allowing this information to influence trading decisions initially but by including it in your analysis you may start identifying useful patterns. For example, if you follow a stock and notice that it often moves in the opposite direction of the Dow, you may be able to include trends in the Dow in your trading decisions.

### The Trading

Most people focus on recording the details of trades and for good reason; this information will reveal the most direct path to becoming a better trader. The obvious things to record are what you purchased, when, how much at what price, when you sold, the price and whether you chose to end the trade or you were stopped out. But journaling is about refining your decision making process, so it is important to include information about how you made the decisions to buy and sell. Also, how you set and moved your stops, unless this is explicitly defined in your trading plan. If there are indicators that you aren't relying on but you think might be helpful, recording them for your trades is a good way to find out. Whenever possible try to use a definite quantity; for example, if you think two moving averages crossing might be important then record the difference between those two values.

A question that comes up on occasion is how to journal a large volume of trades with the concern being that there won't be enough time for both trading and record keeping. Is making a lot of trades more important than learning how to trade well? This is clearly a situation where some patience is in order. Especially when you consider that it won't take long to streamline your journaling process, so if you force yourself to take the time initially soon the time you need to spend will be negligible. That being said, as you gain more experience it is possible that the record of your trades provided by your broker may be enough.

One of the most common reasons people give for making trades that don't conform to their trading plan is the desire to know "what if". This sort of impulsive behavior is the antithesis of discipline and the lesson is an expensive one which rarely provides any useful information. But there is no reason why you can't paper trade in these situations. By following your general journaling format, it's possible to translate these gut feelings into information which gets incorporated directly into the official plan. Plus, if you are inclined to throw money at these types of trades, anything that can get you to stop will be incredibly valuable.

### What Else?

There are a number of things that can be worth documenting which don't relate directly to the trading process. As you read, talk and think about trading you will have a steady stream of useful ideas that are worth writing down. Write them down. These notes don't need to be reviewed as often or as rigorously as the other categories but looking back over them from time to time will prove invaluable. They will remind you of ideas to pursue, areas to research and predictions you can check.

## 5 Journal Structure

The first question to answer when you're starting out is whether to have a physical journal or an electronic one. For the vast majority of people, the best answer is both. The reality is that the information you will want to record is so diverse that including everything as a single document will be impractical. It's important not to let your journaling process get overly complex but dividing the information up is almost required. Physical and electronic journals both have their own strengths and weaknesses, so use them where they make sense.

The advantage of a physical journal is the simplicity. It is easy to pick up a pad of paper or a bound book and just start writing. The freedom of pen on paper makes expressing complex thoughts convenient, where you can have arrows connecting thoughts, notes in the margins and pictures without worrying about any software limitations. Physical journals also encourage fluidity and honesty in a way that computers do not, which can be particularly helpful

when recording your emotional state. So paper journals should be used where their flexibility is helpful.

What computers lack in that type of creative freedom, they more than make up for in their ability to process data. Charting, statistics and searching are all far easier to do digitally than by hand. For many people, an electronic journal is simply one or more spreadsheet files. More complex journaling software is available and some include rather powerful tools. But it is worth starting out with something you can design on your own so journaling reflects your needs and style rather than the restrictions imposed by the software developer. Plus, it relieves you of the time consuming process of selecting a program before you know what you want it to do.

Even though you are keeping different journals, it is important that the information can be worked together. Having the date and time on everything could be enough. If you are keeping written notes on emotional state and a spreadsheet for trades, you can check the time of the trade and then look up the entry in your physical journal. Color coding is another way to quickly indicate meaning. It can be used to help match up records; a highlighted spreadsheet cell and a highlighter mark next to the same entry on every fifth trade, for example. Or the colors can have a specific meaning indicating the type of trade, emotional state or whatever makes sense. Just make sure to write down what the colors mean. But before you start assigning meaning to colors, it's probably a good idea to journal for a while so you know what information is important enough to short hand like that.

Depending on your preference, you can break things out on different tabs or keep everything on one sheet. It might make sense to have a week of trading on a tab and to keep a quarter's worth of data in a file, so that at the end of the quarter you start a new file. Or you can have all of your entries on a single sheet and swap monthly. How often you change files will depend on your trade volume and preference.

One of the nice things about spreadsheets is that they make information really easy to move around and reformat. As you gain experience you will want to do things differently than you initially envisioned. It is a fairly simple matter to add new columns, switch the order of existing ones or otherwise reformat your journal. Though it might be prudent to create a new file and copy the data over, particularly if the alternative is deleting information.

While a written journal will eventually fill up and need to be replaced, you can store a seemingly infinite amount of information in a spreadsheet file. This is a problem because the file will soon become unwieldy. The solution is to develop a good file rotation scheme. Simply start a new file periodically, perhaps at the start of each quarter, and keep all of the files in a folder.

Once you have a working format for your files, you can create a template for starting new files. This doesn't have to be in the special template file format if that's not something you are familiar with. It can simply be a regular spreadsheet with the column labels, formatting and formulas you will be including but without any data.

## 6 Your Journaling Routine

A consistent schedule isn't strictly necessary for discipline but we are creatures of habit and that should be used to your advantage. It's important to set aside time before your trading day starts, ideally before the markets open when you are less likely to be distracted. This time is for you to focus and prepare. Record any information that is available before trading begins, like your emotional state. This is also a good opportunity for goal setting and identifying areas where you want to pay special attention. Budget extra time so you won't be rushed and use any left over to get caught up on relevant news or doing whatever will put you in the best mindset for the day.

During the trading day, record events as they happen. If you make a trade, note it. If you are watching a stock and something occurs which you think is a buying indicator, record it (you may want a separate journal or file for these).

And after each event, make notes on your emotional state. As you become more comfortable with journaling, you can leave things which are essentially data copying until the end of the day. But initially it is important to be very deliberate and thorough. While journaling is primarily about having information

for later, you also want to be paying attention to the information as you trade. The process of journaling will force you to be aware and over time, this awareness will become second nature.

One thing which may be helpful is to only do paper journaling while you are trading. You can record all of the information physically and then copy the information you want in your electronic journal at the end of the day. This will save you from switching back and forth between your spreadsheet and web browser, freeing up time and keeping the process more fluid. This also has the benefit of having all of the information in your physical journal so you don't need to keep checking the computer when you review it.

Make sure to reserve time at the end of the day to wrap everything up. If you were recording everything on paper, copy the data over to your spreadsheet.

Make notes of closing prices and any of the general context that might be important but isn't currently part of your trading plan. Perform some quick analysis on your performance for the day (including any paper trades) so you have that direct feedback of how you did. Then review your goals for the day and your notes from trading. Record your thoughts on the day, identifying things that went well and areas where you want to focus on improving in the future. And then you can be done for the day.

While your schedule should reflect your personal style, goals and needs, following a plan similar to this one will be very important for your growth as a trader. If you oversleep and don't have time before the markets open don't just jump into trading, sit down and do your prep work. If you were late for a job, you would still take the time to put clothes on. Similarly, if you need a couple minutes to decompress at the end of trading take it. But don't walk away and leave the end of the day work undone. Wrapping things up while the trading day is still fresh in your mind will get you the best results, why would you want anything less?

A fixed schedule doesn't just ensure that your journaling is done effectively, it will also improve your trading. Doing the same thing every morning will condition your brain to be ready to trade. While less obvious, it is also important to change gears at the end of the day by getting your mind off of trading.

Having unresolved things that need to be done is anxiety producing and will drag your thoughts back to the markets when you should be focused on whatever you choose to do with the rest of your day. The schedule helps train your trading mind to turn on at the beginning of the day and off at the end. This reduces anxiety, increases enjoyment and improves trading; all things which are important for achieving success and avoiding burnout.

## 7 Using The Data

Analysis is a crucial part of journaling but a point where people often struggle.

Data is of little value if you don't make use of it and so failing to review and analyze your journal is the easiest way to grow disinterested and leave your journal to collect dust.

The most obvious place to start is with basic number crunching. Everyone loves tracking their balance and calculating their return rates (at least when they are trading well) but it is important to dig deeper than that. Professional athletes have their game stats. Top tier salespeople pay careful attention to their sales funnel. As a serious trader, you should identify and track metrics which honestly measure your successes and failures so you can improve.

At the end of the day, or week if your trade volume is low, evaluate your trades individually. For trades that were disappointing, try to figure out why. Not just by looking at the buy and sell prices but comparing them against the price charts. If you frequently have trades turn against you, consider how you are making your picks. If the price is doing what you expect but you aren't making money, look at how you are timing your entrances and exits and consider how you place your stops. Then do the same with your good trades to see if there are patterns which will help you make more good trades or if there are ways to make these trades even better. Then take notes about these observations so you don't need to go back and reanalyze.

This is an area where patience is really important. The nature of trading, like sports or sales, requires consistency. It takes time to identify the patterns you are looking for and changing your trading plan in reaction to every trade is

a good way to drain your account. So look but don't touch until you are sure what you are observing is real. If your trading plan is so weak that it requires frequent tweaking, perhaps it is too soon to be trading with real money and you should stick to paper until it improves.

Calculating and evaluating per trade metrics is very useful but the really powerful analysis comes into play when you can perform statistics on large numbers of trades. This requires a solid understanding of the tools available; time spent reading about how to perform various tasks in the spreadsheet software and learning about the relevant statistics will be very worthwhile.

Having your data split out between different files will be a challenge and you may end up cutting and pasting into a separate file for analysis. However, importing data isn't difficult and most spreadsheets allow you to reference other files which simplifies things significantly.

Create a spreadsheet specifically for doing statistics and similar analysis. Once you work out the details of doing this effectively, you can quickly create charts tracking your trade metrics over different time frames. Remember that if the information you were looking for was obvious, everyone would have it so spend time brainstorming creative ways to crunch the numbers. Once you are comfortable with your tools, the only limit is your imagination. Track your performance by day of the week and hour of the day; it's possible that you will see evidence that your schedule or excitement over the weekend is creating problems. Break out your good, bad and mediocre trades and chart the metrics for each type against each other; stepping back and seeing the forest may make identifying places to improve your trading a snap.

And when you run out of good ideas, start trying crazy ones. Chart your data against the phases of the moon or your golf scores. This isn't about superstition, the real world is complex and the relationship between things aren't always obvious, especially when you get into psychology. If you do your statistics well, you will know when things are actually significant and not just noise.

A word of caution, it is easy to let this type of searching dominate your time and interfere with your regularly scheduled trading. Don't. There is no need to do big picture analysis every day, so leave it for the weekend or set aside one evening a week to work on it. Reserve the in depth planning and working on new ways to crunch numbers for one day a month or even once a quarter. These things are important but should represent a fairly small amount of your total time.

## 8 Reviewing Your Notes

Analysis isn't only about crunching data. Just like you go back and review the numbers, go back and review your notes. It might make sense to have a separate journal reserved for recording your big picture observations. When you do your weekly statistics, read back over your journal and look for common themes and emotions that jump out at you. You will be surprised at the great ideas you wrote down and quickly forgot.

A common pattern for traders is a burst of optimistic enthusiasm then a flurry of trades followed by pessimism or feelings of defeat when it becomes clear that expectations were unrealistic. But not just for new traders, this sort of cycle can affect all of us. By reviewing your notes, particularly if they include information on emotional state, it forces you to take a long view of trading rather than just the emotion of the moment. This process is an important piece of becoming a disciplined trader. The main problem facing many traders is not that their trading plan is bad but that they don't follow it (or even worse, they don't have one). When you consider this, it becomes clear how important discipline is.

But it is quite difficult to overcome psychological challenges if you don't know what they are. Journaling and then regularly reviewing your journal is an invaluable tool in this process of self discovery. While it may be tempting to beat yourself up over your mistakes or bad attitudes, don't. Work hard to be honest when you're making notes and to review those notes without judgment. You can't change the past but if you want to improve the future you can't let feelings of guilt keep you from honestly assessing yourself. Hindsight may be 20/20, but that only helps if you actually look back.

## 9 Bringing It All Together

After you have identified ways to improve your trading, the next step is to change your trading plan to reflect these observations. This brings the process full circle; you've created a feedback loop where you will be able to continue learning and growing as a trader.

Over time you will find that your needs for journaling will be gently changing.

There is no reason to continue doing things which aren't benefiting you, so change how you journal accordingly. But it is important to continue to evaluate your trading performance because there are no guarantees that your trading plan will allow produce the same results.

Now the challenge to you is to apply these journaling techniques and become a more successful and more disciplined trader.