PRECISION PIPS ACADEMY | TRADING FROM ZERO · LESSON 17

TRADING JOURNALS & BACKTESTING

How to record your trades, test your ICT/SMC model, measure win rate and expectancy, and discover what actually works

Welcome Back, Fam

Lesson 16 covered managing trades. Today we measure performance with evidence instead of memory, confidence or a few wins. You can mark a perfect FVG and still have a strategy that performs poorly, or lose several in a row while following one with positive long-term expectancy. How do you tell? You collect data, test rules, record trades and evaluate.

1. What Is a Trading Journal?

A journal is a structured record of trades, decisions and results, a personal trading laboratory. It answers five questions: what did I see, why did I enter, how did I manage the trade, what happened and what did I learn. An example hypothetical entry: XAUUSD buy, bullish hypothesis, potential sell-side sweep, displacement and a short-term shift, entry area bullish FVG, entry 4,100, stop 4,090, target 4,120 (planned reward 2R), target reached, rules followed. The key is not simply that it won but whether it won while following your rules: a winning trade taken impulsively can reinforce a bad habit and a losing trade executed correctly can still teach you about the strategy.

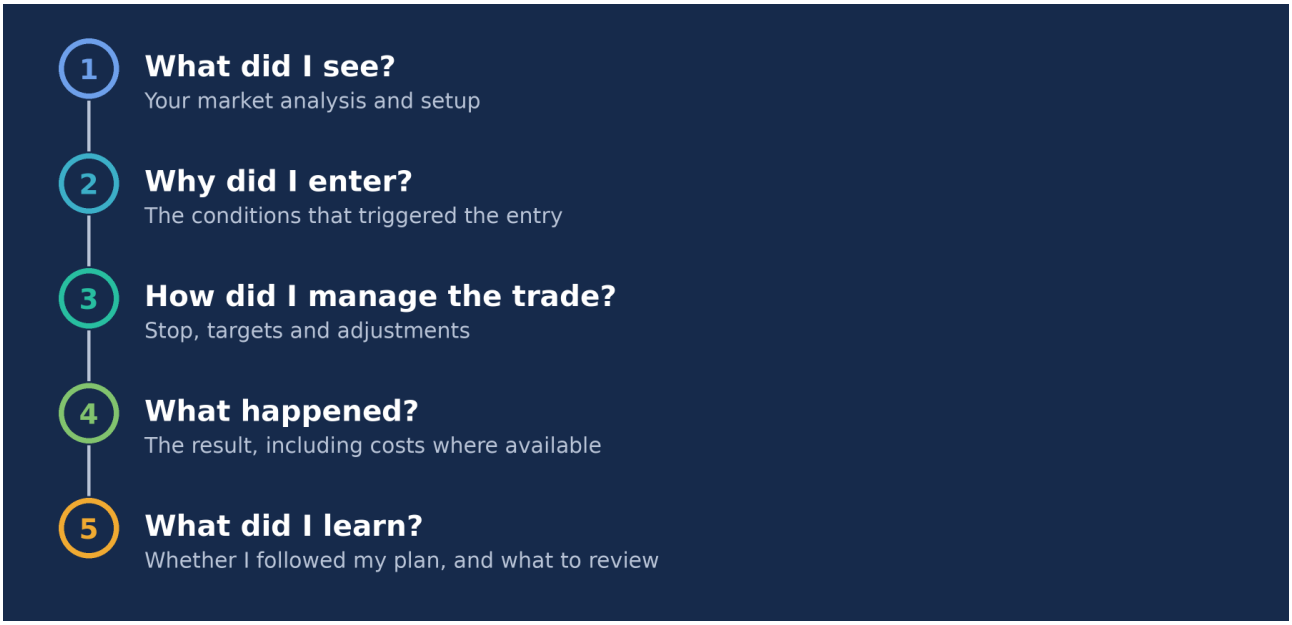


Figure 1: five journal questions.

Journal field	What to record
Date and session	Trading date, London, New York or other
Higher-timeframe context	Trend, range, premium or discount, key levels
Liquidity	The relevant high, low, equal levels or sweep
Confirmation	Displacement, BOS, MSS or CHOCH if required
Entry model	FVG, OB or another predefined model
Execution	Entry price, order type, fill status
Risk and target	Stop, size, planned risk and take-profit
Outcome and result in R	Win, loss, scratch or unfilled; net result vs initial risk
Rule adherence	Followed the rules or broke them
Screenshot and notes	Before entry and after exit; lesson or mistake

Figure 2: fields for an ICT/SMC journal.

2. What Is Backtesting?

Backtesting applies a defined strategy to historical data. Write the model precisely enough to test, then record every qualifying setup, including failures. It can answer: does the model behave differently in London and New York, does requiring an MSS improve results, does an unconfirmed FVG entry differ from a confirmed one, does a fixed target differ from partials, how does it behave in ranges vs trends, how often is the stop hit first. Historical results do not guarantee future performance; backtests can be distorted by hindsight, unrealistic fills, incomplete data and overfitting.

3. Backtesting, Demo Trading and Live Trading

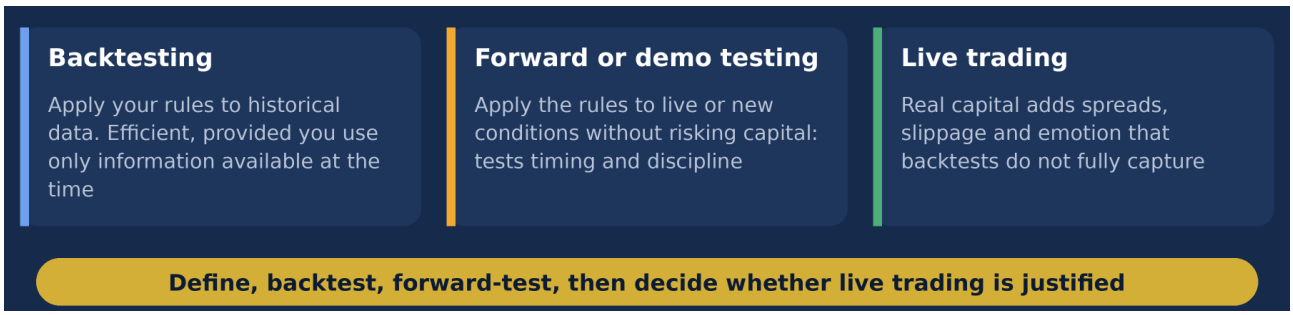


Figure 3: three activities with different purposes. There is no universal number of trades or period that guarantees readiness.

4. Define Your Rules Before You Test

The biggest mistake is changing rules to fit what already happened on the chart: if you only select FVGs that worked, you are not testing objectively. Before testing, write a full rule set, including what happens when conditions conflict, when a setup is invalidated before entry, or when the target is too close. If you use discretionary judgement, document exactly what you judged and why.

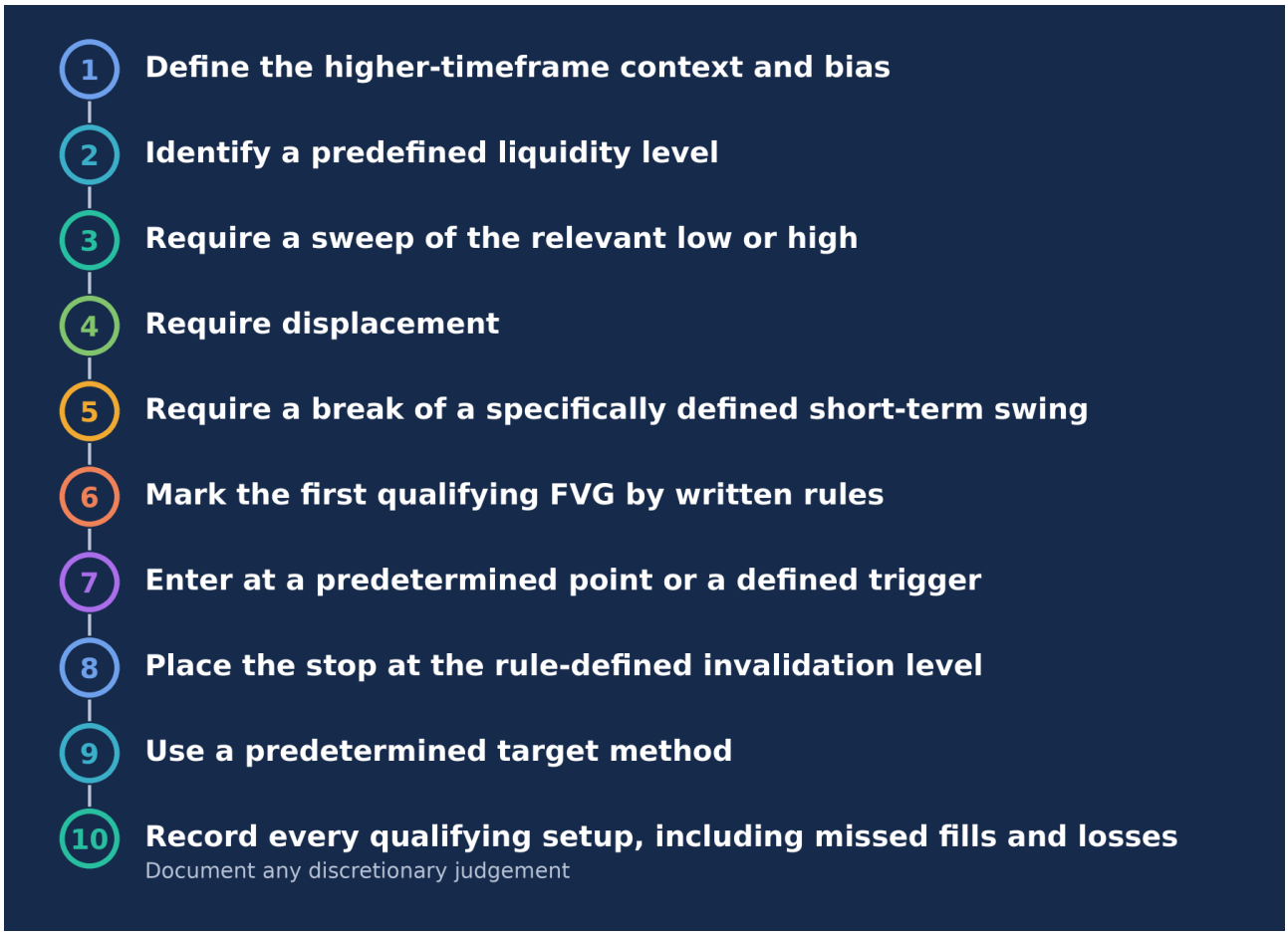


Figure 4: an example bullish rule set.

5. How to Backtest on TradingView

Start with chart replay and a spreadsheet; no expensive software is needed. Use Bar Replay to move through history progressively and hide future price action so that you decide with information available at the time. Include only setups that meet your rules, simulate execution realistically (did price reach your entry, which was hit first, stop or target?) and, if both levels fall in one candle, use finer data or a conservative, documented assumption. Record the result in R: if planned risk was $20 and net profit after costs $40, the result is +2R.



Figure 5: seven steps.

6. The Most Important Statistics

Win rate = winners ÷ total (45 of 100 = 45%). A lower win rate can be profitable if winners are large relative to losses. **Average win**: +90R across 30 winners is 3R. **Average loss**: 35R across 70 losers is 0.5R. **Profit factor** = gross profit ÷ gross loss ($1,500 ÷ $1,000 = 1.5): above 1 means gross profits exceeded gross losses in the sample, not future profitability. **Expectancy** = $(P_w \times A_w) - (P_l \times A_l)$: the average result per trade combining how often you win with how much you win and lose.



Figure 6: five statistics.

7. Calculating Expectancy

The interactive calculator in the original lesson becomes a worked example here. A hypothetical strategy with a 40% win rate, 2R average win and 1R average loss has simplified expectancy (0.40 × 2) − (0.60 × 1) = +0.20R. A 45% strategy with 2R wins and 1R losses is +0.35R; at 70% with 0.5R wins and 2R losses it is negative. Remember the assumptions: constant win rate and averages, no uncertainty, no costs beyond those included.



Figure 7: worked expectancy.

8. Why a High Win Rate Can Mislead

Metric	Strategy A	Strategy B
Win rate	75%	45%
Average win	0.5R	2R
Average loss	2R	1R
Simplified expectancy	−0.125R	+0.35R

Illustrative figures: not results for any real strategy

Figure 8: Strategy A wins more often but has negative expectancy; Strategy B wins less often but has positive expectancy. Judge win rate, average win, average loss, costs and drawdown together.

9. Drawdown in Your Backtest

Drawdown is the decline from a previous equity peak: equity $1,000 to $900 is a $100 (10%) drawdown. A strategy with positive expectancy can still have losing streaks that are financially or psychologically unacceptable. Record maximum drawdown, losing-streak length, recovery time, whether results depend on a few large wins and whether risk remains tolerable. Historical maximum drawdown is not a ceiling. Fixed-percentage risk reduces monetary risk as equity falls; fixed-dollar risk makes percentage drawdown larger as the balance declines. No sizing approach removes risk.

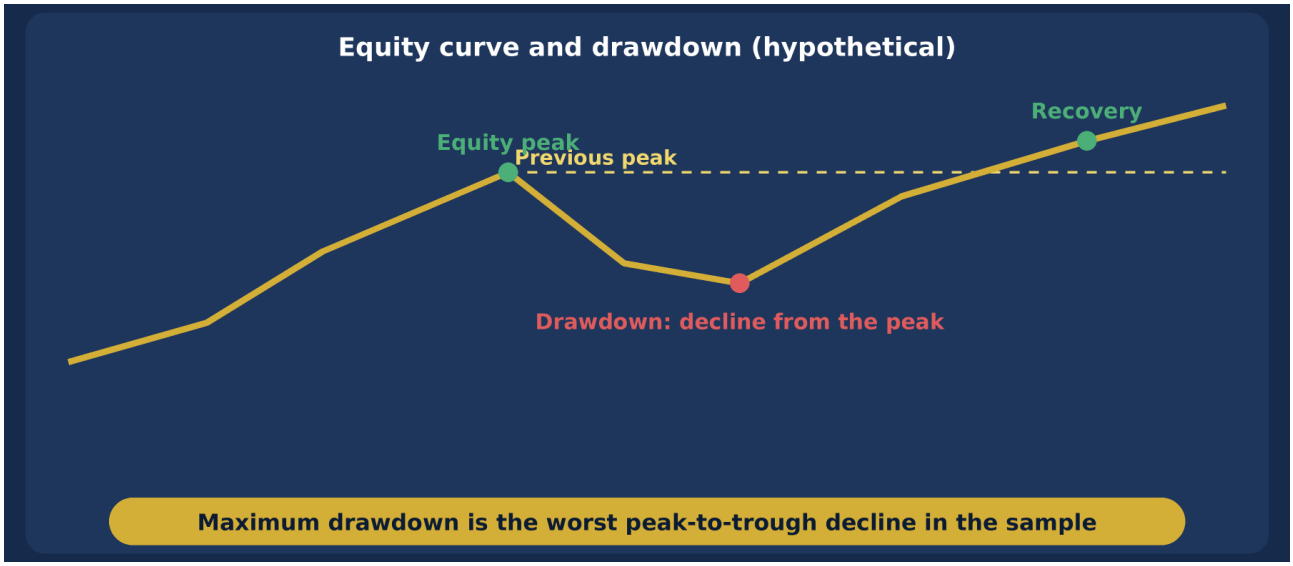


Figure 9: an equity curve with a drawdown.

10. Avoid These Backtesting Traps



Figure 10: seven traps and how to avoid them.

Added: why sample size matters

With a true 45% win rate, a sample of 20 trades can easily show anywhere from the mid-30s to mid-50s in win rate, because one standard error is about 11 percentage points; 50 trades is about 7, 100 about 5 and 200 about 3.5. This is why a handful of trades says almost nothing, and why you keep testing and keep records.

Trades in the sample	Approximate uncertainty in a 45% win rate (1 standard error)
20	About ±11 percentage points
50	About ±7
100	About ±5
200	About ±3.5

Added: small samples cannot pin down a win rate

Figure 11: the sampling error of a win rate.

11. Your First Backtesting Project

Choose one entry model from the academy. Do not combine every concept into one complicated strategy.

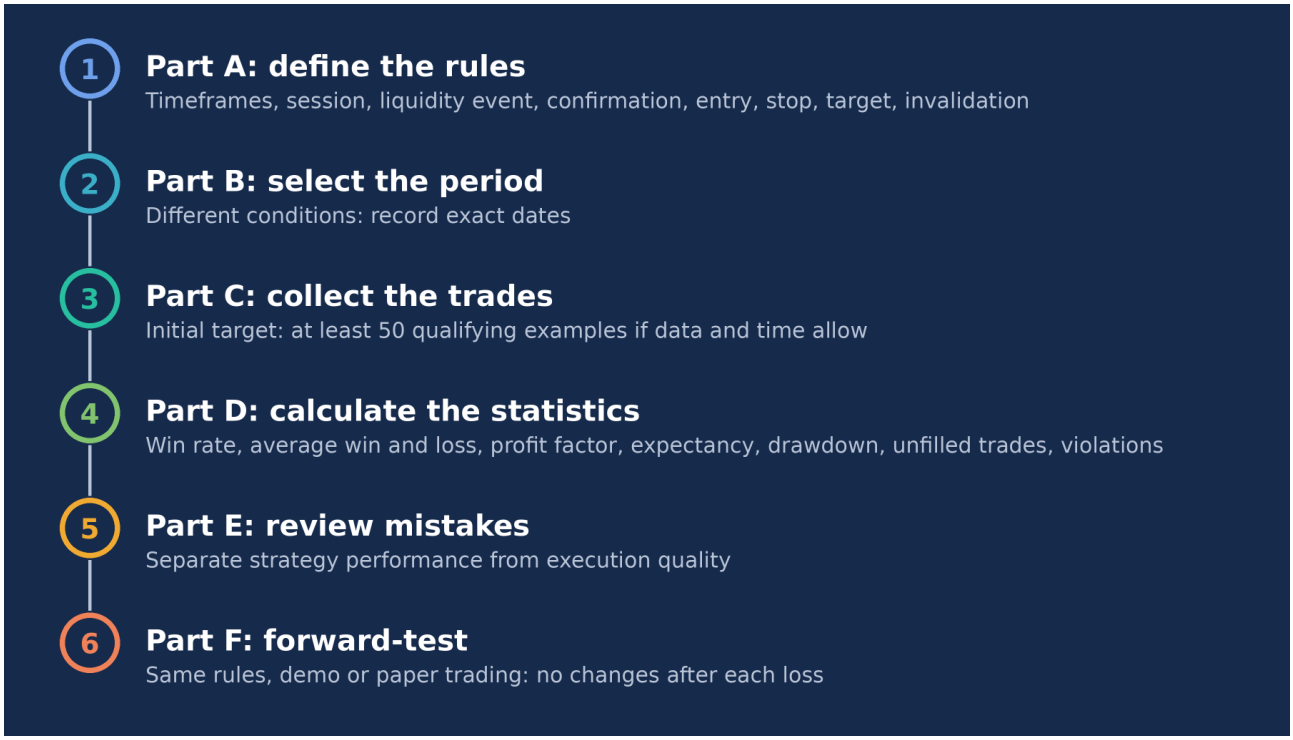


Figure 12: parts A to F.

Key Takeaways

- A journal records decisions, not just results.
- Write rules first; do not change them to fit the chart.
- Include losses, missed fills and no-trade days.
- Measure win rate, average win and loss, profit factor, expectancy and drawdown together.
- Backtests do not guarantee the future: forward-test.

Knowledge Check

Q: Purpose of a journal?

A: To document decisions, results, risk, execution and lessons for evaluation.

Q: Backtesting vs forward testing?

A: Historical data versus new or developing market data.

Q: Can a 40% win rate be profitable?

A: Yes, if average wins sufficiently exceed average losses and costs.

Q: Why record failed trades?

A: They reveal limits and prevent cherry-picking.

Q: What does expectancy tell you?

A: The average result per trade under measured assumptions.

Q: Why is it dangerous to change rules to fit history?

A: It causes overfitting and misleading results.

Q: Does a positive backtest guarantee profit?

A: No.

Added: Glossary

Term	Meaning
R	Initial planned risk.
Expectancy	Average result per trade.
Profit factor	Gross profit ÷ gross loss.
Overfitting	Tuning rules to history until they stop generalising.
Drawdown	Decline from an equity peak.

Next lesson
Lesson 18: Trading Psychology and Discipline.

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