The "Drawdown Source" Diagnostic S5 Protocol. FOREXSHARED.COM

Phase 1: The Research Protocol

- **Central Problem Entity:** Account Equity Erosion.
- **Problem Statement:** The trading account is experiencing a sustained decline in capital (drawdown), but it is unclear whether the cause is a statistical failure of the strategy (Edge Decay) or a behavioral failure of the trader (Execution Error).
- **Primary Objective:** To mathematically isolate the primary driver of losses: **System Failure** vs. **Discipline Failure**.

Phase 2: Variable Identification

We must separate the "signal" (your strategy) from the "noise" (your emotions).

- **Independent Variables (The Suspects)** 🕵️
  - **Plan Adherence (The "Golden Variable"):** A binary Yes/No. Did this trade follow *every single rule* of your trading plan? (Yes = Valid Data Point; No = Pollution).
  - **Setup Grade:** The quality of the trade setup based on your criteria (A+, B, or C).
  - **Market State:** The environment during the trade (e.g., Trending, Ranging, High Volatility).
- **Confounding Variables (The Controls)** 📌
  - **Risk Per Trade:** You must keep your risk constant (e.g., 1% of account or fixed lot size) for the duration of this test. Varying risk ruins the data.
  - **Timeframe:** Do not mix scalping (1-minute chart) trades with swing (4-hour chart) trades in the same log.
  - **Strategy Version:** Do not change indicators or rules halfway through the test.

Phase 3: The Data Collection Log

Capture this data for your next **20 trades**. Be brutally honest with the "Plan Adherence" column.

Date	Pair	Setup Grade (A/B/C)	Plan Adherence (Yes/No)	Result (R-Multiple)	Qualitative Notes (Emotions?)

Oct 1	*EURUSD*	*A*	*Yes*	*+2.5R*	*Followed rules perfectly.*
Oct 1	*GBPUSD*	*C*	*No*	*-1.0R*	*Chased price due to FOMO.*
Oct 2	*USDJPY*	*A*	*Yes*	*-1.0R*	*Valid loss. Market reversed.*
Oct 3	*XAUUSD*	*B*	*No*	*-1.0R*	*Moved stop loss too early.*
...	...	...	...	...	...

Definition of R-Multiple:

- **-1.0R:** You lost your full initial risk (stopped out).
- **+2.0R:** You won twice your initial risk.
- **0.0R:** Break-even.

Phase 4: Quantitative Analysis

This analysis separates your *theoretical performance* from your *actual performance*.

1. **Data Segmentation:**
   - **Bucket A (System Performance):** Calculate the total R-Multiple of ONLY the rows where Plan Adherence = **"Yes"**.
   - **Bucket B (Trader Performance):** Calculate the total R-Multiple of ONLY the rows where Plan Adherence = **"No"**.
2. **The Comparison:**
   - *Scenario 1:* Bucket A is Positive (+), but Total P&L is Negative (-).
     - **Diagnosis: Discipline Failure.** Your strategy works, but you are sabotaging it with bad trades.
   - *Scenario 2:* Bucket A is Negative (-).
     - **Diagnosis: System Failure.** Even when you follow the rules perfecty, you lose money. The strategy itself needs repair.

3. **Insight Statement:** Fill in the blank:
   "The data strongly suggests the primary driver of my drawdown is **[Discipline / System] Failure**. My 'Adherent Trades' generated **[+X] R**, while my 'Non-Adherent Trades' cost me **[-Y] R**."

Phase 5: The Testable Hypothesis (A/B Test)

Now, fix the specific problem identified in Phase 4.

- **If Diagnosis = Discipline Failure:**
  - **Hypothesis:** "My hypothesis is that by **taking ONLY 'A-Grade' setups where I can confirm 100% Plan Adherence**, I can flip my expectancy from negative to positive over the next 10 trades."
  - **Action:** Implement a physical checklist pre-trade. If any box is unchecked, *do not click the mouse*.
- **If Diagnosis = System Failure:**
  - **Hypothesis:** "My hypothesis is that my strategy performs poorly in **[Market State, e.g., Ranging Markets]**. By adding a filter to avoid trading during low-volatility hours, I can increase my win rate by 15%."
  - **Action:** Backtest the strategy with the new filter applied to historical data before risking real money again.