TRADING 101

"TRADING IS EASY TO LEARN, BUT DIFFICULT TO APPLY"

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Trading is easy to learn, but difficult to apply. The basic trading rules and many strategies are readily available in books and on the Internet. The first step is acquiring this knowledge, then disseminating the information to develop your personal game plan for trading. If I told you to never let a loser go past your out price, could you stick to it? If you are trading a trending strategy and today's market is sideways, can you maintain the mental strength to avoid taking trades? If I tell you to not to add to a losing position, can you prevent this while in the heat of the moment? These questions detail some of the difficulties traders face while in the heat of the moment.

I. PRE TRADE

Before the trading day, I have sat with traders to determine if they have the proper mindset for the day. You would be surprised how many traders answer all the questions right when they sit across my desk, but then at the end of the day, we look back over their trades and see all the rules they broke. During the heat of the moment, psychological factors come into play and traders can make bad decisions. Bad decisions that they even know at the time are wrong, yet they can't avoid them. These momentary lapses of judgment are the second biggest reason that traders lose money, only behind poor risk management. Each trader's psychological makeup is different and each trader faces their own unique set of problems.

In 42 BC, Publilius Syrus said "Anyone can hold the helm when the sea is calm". This quote defines the separation between knowing the rules and executing them. A trader may be able to recite all the important trading rules before the trading day, but when faced with the challenges of a live market, fails to follow them.

You must also be able to apply what you've learned on a daily basis. Your trading career will be a never ending quest for knowledge. Knowledge about basic rules, knowledge about strategies, and most importantly, knowledge about yourself. You must determine what mental road blocks you will encounter and find a way to beat them. Veteran traders never stop trying when they hit a bump in life. Because, they spend every day of their life enduring obstacles, and for the sake of their careers, they must find ways around them. You too will be challenged in your quest to become a trader, and you too will have to overcome all obstacles.

II. OVERCOMING OBSTACLES

Trading obstacles come in many forms. The most obvious involve the market and your daily trading. These are the challenges that you face everyday in your quest for success. They may be as basic as having trouble getting an order filled or as complex as why your losers are bigger than your winners. Other obstacles are psychological. You may find that your trading game plan should be yielding positive results, yet your inability to execute properly is preventing your success.

The obstacles that most trading books don't talk about are external conflicts. These may be your personal financial situation or pressure from loved ones. Of the hundreds of traders that I have trained, over half of them have had problems at home due to trading. Many of my trader's spouses or significant others didn't see trading as a viable job and added undue pressure to the trader. If you don't have support at home, you are in for a long road. And at the end of your trading learning curve, there are only two possible outcomes… Hero or zero. If you are successful, you will be praised at home for having the foresight and skill to become a trader. But, if you fail, prepare to hear "I told you so…" many times over the next few years.

I have been lucky. I was still learning to trade when I met my wife and she has always supported me, even during the tough times. My wife comes from a family where you get a job, stay with the company, secure promotions, and retire. So, my lifestyle was in stark contrast to what she was used to. When it comes to business, I have always lived on the edge and embraced risk. I can't imagine living any other way. A long time ago, in the year we were married, I ran into a problem with the firm I was trading at in New York. The problem was that when I showed up to work one morning…. The doors were locked. It turned out that the owner had been embezzling trader's money and had left town. I had about $250K in my trading account and all legal recourse to recapture my funds failed. We moved back to Chicago and my wife even offered to get a job to help rebuild my trading account. She never once asked me to take a salary job. She wanted me to trade and was willing to do anything she could to help. My wife's unconditional support has been one of the key ingredients to my ability to maintain long term success in the trading business. It is important to understand the dynamic of home life vs. trading and find a way for these two important aspects to peacefully coexistence.

Trading is easy, IF you know the rules and follow them. The only 2 reasons that traders fail are:
1.) They don't know the rules
2.) They know the rules but don't follow them.

Most new traders fail to find and properly disseminate the "right" rules. Trading successfully is not hard, but following the rules day in and day out is.

III. SUITABILITY

Make sure your strategy suits the prevailing market. Without looking at the market, determine what market type would be best for your strategy and only trade it when this ideal condition exists. Don't try to tailor your strategy to the market. Know what market your strategy is good in and only use it then.

Recognize the type of market you are in and trade accordingly. Don't just trade with the trend in a choppy market just because you made money doing it last month.

Better to predict what the market is doing, or its current state, than what you think it will do. This is a critical rule commonly ignored by new traders. You will hear me regularly talk about suitability. Suitability is the key to turning a strategy into a positive cash flow. More important than knowing when to employ your strategy, is knowing when NOT to employ your strategy. Often times, traders will perform well on the good days, but fail to see the bigger picture on the bad days and just keep trading the same way and giving away their gains.

IV. TELLING THE FUTURE

You don't need to know what is going to happen next to make money. It is not the job of traders to predict the future. Ask any floor trader what he thinks is going to happen next and he'll say, "I have no idea". That's the trick to trading, forget about trying to guess the future, stick to your game plan, and just react.

You must avoid the tendency to judge a decision by its outcome rather than by the quality of the decision, at the time it was made. It's not about being right, but executing well. Remember that your job is not to predict a move before it happens, therefore, you should never feel clairvoyant when a trade goes your way. Likewise, you should never get down on yourself for taking a loser. Winners and losers are both just part of the game.

After trade exit, do not examine your trade as a win or a loss. Examine the following questions: Did I show good judgment and execute properly on trade entry? During the trade? On trade exit? Sometimes you will have the right trade on at the wrong time. You can not beat yourself up over a trade because of what you know now. No trader can be expected to know the future, hence, why would you be upset that you got out, only because it went up. What if it went down? Would you still be upset at yourself? Traders can only make the best decision based on the information that is available at that exact moment in time.

The unknown of trading, potential lifestyle and earnings, and fast paced excitement appeal to many people. But when you get down to it, the best traders really are mechanical in their daily routine. I hesitate to use the word monotonous, but making trading simple and routine is the best way to succeed. The wild card gunslinger that trades by taking on big risk never lasts. ***Approach trading like taming a wild beast, not unlocking a beast within you.***

The unknown of trading can also be a difficult concept to live with. Most people are used to steady paycheck and a safe financial lifestyle. Not knowing how much money you are going to make can wear on your mind and cause a constant internal conflict.

Alleged missed opportunities are irrational thoughts on what you “might” have done and only hurt your trading progress. Over the course of your trading career, there will be plenty of opportunities to take trades. Missing out on one trade today is not the end of the world. The interesting thing is that you never hear traders complain about the trade they should have taken, that turned out to be a scratch or even a loser… it’s always the big winners that they claim they should have been in. This thought process proves the point about the backward thinking of most traders. The reason that you should have taken a trade should be based on the information that was available to you at the time that trade entry would occur. Believing that you should have been in a trade AFTER you know it’s a winner is choosing to live in a dream world where you think you are going to someday predict the future. Subtle rules like this often go unnoticed, but define the differences between strong and weak traders.

V. SCENARIO BUILDING

Scenario building is a great way to maintain focus and gain understanding in the market, if you are a full time trader. Let's look at two types of scenario building:

During a live trade:

What do you think about while you are in a trade?
Are you just hoping and willing the market to move in your favor?

You should be analyzing the logic that got you into the trade to ensure that the probabilities are still in your favor. And, you should be considering all the possibilities that could occur and determine how you will react. If you are long the EUR/USD and your strategy is based on intermarket analysis (meaning you watch all the EUR pairs and USD pairs for your indications of entry and exit). While you are in the trade, you can create imaginary scenarios in your head, like: What if the GBP/USD goes below recent support? What if the USD/JPY rallies to a new high? What if news comes out that is negative on the German economy? The key to scenario building for a new trader is that it keeps you mentally focused and allows you to understand all the possible outcomes before they occur. When something finally does happen, you will already know what you plan to do. This will speed your execution time by moving you from a novice hesitation to an experienced reaction.

During an almost trade:

You considered taking a trade, but chose not to. Now what? Do you sit back and read the paper? NO. You mentally pretend that you are in the trade and continue the same scenario building course of action. The more you can feel the market and engage yourself in trading decisions, the more vital experience you will gain.

Have you ever heard that someone thinks 5 moves ahead in chess? Or that a trader must outwit his competition? This is scenario building. No one in chess or trading is actually telling the future, they are simply preparing for all possible outcomes and planning their reaction. It only makes sense. If you have already thought of everything that could happen and have planned your reaction appropriately, then what is there to be surprised about? The worst thing you can do is during a trade is that, if an event occurs that shocks you and you go into the "deer in headlights mode". If this happens, you are underprepared.

VI. SURVIVAL

The most important rule of trading is staying in the game. It doesn't matter how well you "could" have done if you lost your entire trading account during the learning process.

There are easy markets and there are hard markets….the golden rule is to make sure you are still around when the easy market hits. If you are trading a trending strategy and the market is in a channel for a couple of months, then lay low and conserve your capital. When the trending market occurs, you will have the capital you need to properly execute your strategy.

Veteran traders commonly employ multiple strategies depending on the current state of the market. But, as a new trader, you must start with one strategy and learn it. Then as time goes on you can begin to add additional strategies to your game plan and capitalize on all types of markets. But, you can't learn multiple strategies effectively when you are a new trader and have yet to master one.

Don't wait for a huge hit to realize you need to become more objective… it's a painful lesson. Manage your losses according to your predetermined risk structure. Most new traders blow out their accounts with one huge hit. Realize that if a trade is getting away from you, you need to make the call to just get out, and live to fight another day. ***No single trade is ever worth ending your trading career.***

If a trade does get away from you and you have missed your out price and are now in damage control mode, you must think objectively, even though your emotions are trying to control you. When taking a hit, you can not say, Ill get out when it bounces back two pips….. Just get out. It is common for a new trader on the floor to be stuck in a dangerous loser and say to someone around then, "I'll get out of this if it goes back my way a few pips." The standard veteran response to this is, ***"No matter how bad the trade seems it can always get worse."*** New traders are shocked when told this because all they are focused on is hoping for a little better price to salvage the mess they are in, but they don't think of the unlimited downside that can continue to occur.

You must have a long term mindset… not a get rich quick scheme. As I said earlier, trading is easy, but learning to execute the rules is difficult. It takes time to recognize where your weaknesses are and practice to follow the rules while the action is occurring.

Take the responsibility for all actions that occur and don't blame anything or anyone else, ever. No matter what happens, blaming anything or anyone else only hurts your growth as a trader. That's not to say that things can't occur that are out of your control, they can. But blaming external forces allows you to skip out on the personal responsibility required for you to take the next step in your trading career. Shifting the blame makes you feel owed for some unforeseen event that cost you money. No matter how much you think it, the market never owes you anything.

VII. ADAPTATION

Adaptation is the key to longevity. Markets constantly change and strategies require tweaking. You must accept this and prepare for a lifetime of change and evolution in your trading.

Your strategy and execution have not changed, but now your winners are losers. What happened? The answer…change. The market constantly changes and evolves and you must adapt to survive. Don't ever rest on your laurels, because in trading, the next challenge is always right around the corner.

It is a sad sight, but over the last few years, I have seen many veteran floor traders leave the business. The advent of computer trading has all but ended their way of life. While there are still plenty of successful traders on the floor, many of the old school traders have moved on. The floor is drastically different than it was ten years ago. What defined a good trader then and now are in very different. Successful traders used to be the guys on the top step that could yell the loudest. Now, the successful traders have been forced to find new edges and trade smarter to stay in the game. Most of the veteran traders have twenty plus years experience in the pit and zero experience even using a computer. So, the jump from the pits to the screen has yielded a very low success rate. I was right on the cusp of the shift and had the skills to make the move to the screen. But many of my friends that I looked up to in the pit are done, and the mental impact it has caused has left most of them miserable. When you spend twenty years pit trading, it's hard to find a way to replace the void inside you when you leave.

The morale of this story is that all markets changes and you must evolve to stay competitive. And every once in a while, markets experience an earthquake of change that drastically impact the business, and only those who adapt the fastest survive.

The market is alive and you should trade it accordingly. The market is not a mathematical formula that you need to solve. It is a living, changing thing that crushes most of those people who try to play with it. The players of the market are the physical make up of the market itself. These players have emotions and goals just like you. When you combine all the player's psychological and mathematical backgrounds, you get the market.

Imagine being an NFL player that goes to work everyday and finds out that the rules have changed and no one knows what they are. Most careers are like mathematical formulas with rules and guidelines on how to succeed. But, trading is like being a professional, open seas treasure hunter. You can spend months working toward finding this one treasure, but when you finally reach it, it may be worthless. And somehow, you have to pull yourself together, get back on the boat and do it all over again, knowing that the outcome could yet again, be the same.

I have always looked at trading in a logical way. When I started, I need to decide if it was a worthwhile and viable option for me? I first needed to determine what traders make money, how much, how they make it, and did I feel I could replicate it. The Chicago Board of Trade was the perfect experimental training grounds. Within only a few weeks, I was able to decipher the answer to my first question. I could identify some of the traders that were wildly successful and found out how much money they made from their clerks. The numbers were staggering… traders making hundreds of thousands of dollars in a single day. My next question was… how did they make it? I observed the traders that made the most money and the common characteristics they shared. They were fast, confident, smart, and aggressive. I determined that I had the personality attributes necessary for success and I committed myself to becoming a trader.

VIII. PUTTING SURVIVAL INTO PRACTICE

This rule is commonly overlooked and almost always causes financial pain. Don't cost average in trading. ***Never add to a losing trade.*** Think of it in terms of math. If the average size of your winner is going to be $1,000,000 and the average size of your loser is going to be $2,000,000, then you will need a seriously high win ratio to become profitable. A losing trade is proving to you that it is not working out, so why would you continue to add more to the same position. You should wait for a better option to put your capital to work.

There are two exceptions to this rule. Cost averaging may be a sound fiscal strategy when it comes to investing, but not trading. And, if you are scalping 100+ trades in a day, you may take new scalps before you have exited your last scalp which could me misconstrued as adding to a loser.

Don't sell against new highs. If the market is continually making new highs, then do not go short. Simply put, there are more buyers than sellers and why do you think that you can guess when this overwhelming paradigm will shift. The same is true in converse. Don't go long against new lows.

If you are an active, full time trader, then don't take overnights until you are a successful trader, you must feel each trade. If your strategy is being in and out during the same day and disseminating information on a minute to minute basis, then don't take trades that you are not going to be able to gauge on a consistent basis. Conversely, the same is true, if you are a swing trader (trades lasting 2-5 days), don't sit down and take a few scalp trades just because you are bored or you have time. Understand the requirements of your strategy and employ it consistently.

New traders need all the help they can get when they are learning how to execute the rules. This includes being on the side of the market that is currently winning. If the market you are trading is making new highs every day, then you want to trade from the long side. Many books and pseudo-experts pitch counter trend strategies, but the only traders who can make counter trend strategies work are experienced, successful traders. This is a fact. No counter-trend trading until you are a successful trader.

The exception to this rule is channel trading. If your strategy is to trade a market by buying the low range and selling the high range, then you can ignore this rule, UNLESS the market IS making highs or lows. Then you are trading a channel trading strategy during a trending market, and this is a setup for failure.

IX. BE PREPARED

To mentally prepare yourself to trade, you must be comfortable with risk. Not just risk in trades, but risk in everyday life. When you trade for a living, you never know what next month will bring and you have to be able to maintain a stable mindset in the face of an unknown future. If taking risk negatively impacts your life, then maybe trading is not the best suit for you.

When I was at the University of Florida, I took the LSAT for law school admissions. I scored a 160 which is in the 80th percentile and good enough to go to quite a few law schools. However, I wanted to go to Georgetown law, and the 160 was not going to be good enough. I was standing on the steps of my Fraternity house talking to a senior brother who was currently in Florida Law School. He said, "Maybe law school isn’t your thing". I wanted to punch him. I had only ever planned on law school and nothing was going to get in my way. But, I later thought about what he said and for the first time, I realized that there were other options in life and I did not HAVE to go to law school. His comments didn’t detour me from my quest to become a lawyer, but they opened my mind to be objective about my future. This story exemplifies my point. Trading is not for everyone. If it suits you, then great, but if it doesn’t, then be realistic and open minded about your future.

Be ready to work and maintain your edge. You must have sharp focus to see the right decisions and act on them without hesitation. New traders think about a trade, and veteran trader hit the button, based on an immediate reaction.

If you are a full time trader, don't get in a position and just put your target and stop in, and emotionally remove yourself from it. Acutely pay attention to everything that is going on in the market, it is the one time when you senses are heightened. Conversely, if you are a part time trader, don't stare at the market and read every tick. This will only cause you to make bad decisions that stray from your strategy.

X. THE MYTH OF THE PERFECT STRATEGY

Finding the one perfect strategy is not the goal, this is a very common misconception. Strategies are simply the tools a successful trader uses to create wealth. Don't get caught up trying to finding the one strategy that guarantees profits. Instead, search for the skills to provide you with a lifetime of consistency through different market types and across multiple products. Choosing a strategy is simply a combination of whether the trading style suits your psyche and if the math makes sense. The strategy does not have to have a 51% win ratio over time. It just has to have an 80% win ratio on the good days and a 20% win ratio on the bad days. Understanding how to apply a strategy is the key to success. Learning when to employ the strategy and when to NOT employ the strategy are the first steps to success. As you grow as a trader, you can even begin to adjust your aggressive/conservative approach on the good days to account for changes in volatility. These two steps will dramatically increase your chance for success.

XI. HOW DO I TRADE?

I use common sense and math to formulate an expected odds probability of a position, then I use psychology, price action, and risk management to enter a trade. During the trade, I constantly check to see if my original logic argument is still intact and I use this logic as my basis for staying in the trade. As the logic improves, I am more comfortable in the trade, but as my logic starts to breakdown, I look to get out.

I use the same principles for exit as I did for entry. The key is that I keep it simple and always execute without hesitation. I understand that trades may be losers and the second a trade is over, I mentally move on to the next trade, without any undue baggage or remorseful feelings. And I continue to repeat this methodology over and over. I know this is oversimplified but it gets my point across. I do use many techniques to determine the above information, but the basis for all my trades always follows this progression.

New traders commonly say something like this, "I want someone to show me a strategy that makes 20% a month". An experienced trader will hear the quote and think "Someone could give them a strategy that makes 100% a month and they would still lose money".

For some reason, new traders generally believe that as long as they can get their hands on the Holy Grail strategy, they will be rich. My answer to the question is always the same. "If I give you a space shuttle that CAN fly to the moon, are you going to be able to pilot it?" In turn, if I give you a strategy that CAN make 20% per month, are you going to be able to trade it? It is important to realize that strategy comes second in priority, and learning how to trade properly, comes first. A good trader can take a trading strategy with a 40% win ratio and make money. How? They know that all strategies have good and bad days and they will choose wisely when to be aggressive and when to be conservative. They also have the ability to maximize gains and minimize losses. I traded a NASDAQ strategy in 2002 that probably had losing trades 80% of the time, yet I only had one small losing month that entire year. My losses were always very small (1-5cents) and my winners ranged from 20cents to $3. The other big difference was that 90% of the time, my winners had much larger size. I hope this helps to dispel some of the common myths of trading and gives you an understanding on how good traders make money.

Bottom line:

Do you want a strategy to make you money? Sorry, it does not work like that. YOU must make the money, and the strategy is simply a tool you use to help create your wealth.

I also hear traders say this to me all the time, "I am so dedicated to becoming a successful trader, I'll do anything". My answer is always the same. That's not true, I see you regularly break the golden rules of trading. So, saying and believing that you will do anything to be successful somehow loses translation when you are in a trade or in front of the screen. In the heat of the moment, many traders seem to forget all the basic rules that they plan to follow and then just "wing it". If you play golf, you will understand this analogy. When you take a practice swing off the tee, you are relaxed and do everything your golf pro told you to do. But, when you step up to the ball, the pressure of actually taking a real swing prevents you from following the instructions you already know by heart. Your practice swing has to be the same as your real swing, and trading is no different.

As you start your career, trading will feel like a lion fight. Remember that if you are going to fight every day, then you are going to get wounded from time to time and you will have scars. Don't lick your wounds… and realize that the scars you wear are a sign of a competitor. Just because you have a bad day fighting, doesn't mean you don't know how to roar.

TRADER NOTES:

TRADING TIPS & TECHNIQUES

"TRADERS WHO IGNORE HISTORY ARE DOOMED TO REPEAT IT"

TRADING TIPS & TECHNIQUES

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TRADING TIPS & TECHNIQUES

I. MARKET TYPES

There are four basic types of markets. Each market is suitable for different types of strategies. It is important that you always evaluate the current market type to determine suitability for your strategy. The basic market types are:

1.) **Slow and Controlled:** This market has very low volatility and does not make new highs or new lows. It is a good market for new traders to learn to scalp in but rarely yields positive results. Technicians may call these "inside days" on low volume. The market will slowly move back in forth with no direction. The only strategies that work in this type of market are channel trading and some scalping techniques. In this type of market, the big institutional traders are very quiet and generally avoid causing a stir. A slow and controlled market is just waiting for a catalyst to cause a move and attract players.
2.) **Volatile and Controlled:** This market has high volatility but does not make new highs or new lows. Advanced traders can use the quick moves to make money scalping, but new traders usually get "caught in the chop". This means that although the market is not going anywhere, it feels like it may and traps traders into taking positions. These are dangerous days as it is hard to know what to expect. The locals, or ultra short term traders, are very active on these days as they use the volatility and low probability of a breakout or breakdown to constantly take small winners. Only the best scalpers make money in this type of market and most new traders find themselves in trouble.
3.) **Trending and Drifting:** This market has very low volatility but is moving in one direction. It is a very good market for new traders as the moves are slow enough to follow and the volatility is low enough to avoid the "shake out". The key to a trending and drifting market is to get on board early. The better price you have, the more comfortable you can be in your position. It is possible that a new trader may misconstrue the low volatility as a bad day for trading. This is not the case. If you are trading a trending strategy and the market is continually making new highs, you should be long.
4.) **Trending and Volatile:** This market is highly volatile and moving in one direction. These markets are the best for profit potential. However, for new traders they can be difficult as the moves are fast and the pullbacks can be big. Entry price and risk management are key in this type of market. The opportunity to have big winners is also present. The risk reward on these days are always worth it. This is the time for new traders to test their skill and get involved.

You should keep track of average ranges and types of days on a regular basis. This will help you to better identify what type of market you are currently facing. Understanding what type of day today is and trading it accordingly are key to successful trading.

II. EVALUATING QUALITY

Tracking average ranges in the products you trade are important to identify larger trends. If the product you are trading is expanding in range over the past month, you can expect increased volatility. Conversely, if the average range is contracting, the volatility is decreasing. Average ranges are important in determining a sound risk reward strategy. The average range defines the likely size of the moves you may be able to capture. Your risk should coincide with the size of the range. For intraday trading, if a product has a daily range of 100 pips, you should not risk 50 pips on a single trade. It is unrealistic to assume that you can capture the entire range just to reach a 1 to 2 risk reward target.

Evaluating the quality of the month, week, and day will help you verify the type of market you are in. If the month has been slow and no new economic news has been introduced, then you can not expect a volatile trending day. Recent history helps define what you can expect on a daily basis.

If you trade multiple products, you must change your lot size according to each product's volatility. If a product 3 times the daily range of another, you should trade 1/3 the size in the more volatile product. When intraday trading, return on investment is less important than measuring volatility. All FOREX trades already come with high leverage, so trading the same size among products with varying volatilities can disrupt your risk structure.

Risk reward ratio is only for pre trade. After that, you do not NEED to get your pre qualified reward ratio out of the trade. This fact impedes many new traders as they try to take more than the market will give them because they believe that have to gain a certain amount or their math doesn't work. This is a very common flaw for novice traders. It's just as important to know when not to trade and to have to discipline to sit on your hands.

III. QUANTIFYING TRADES

As you are learning, your first phase of trading qualifies each trade as simply a yes or a no. If it's a maybe, then it's a no. After you gain experience you will begin to evaluate the yes's by quality and then you can learn to vary your bet size.

As you consider entering a trade, use the basis for your strategy to determine if the trade is right to take. If it does not suit your game plan, then do not take the trade. If you choose not to take the trade, and it goes in your favor, never say to yourself that you should have taken it. It is your job as a trader to use the ***CURRENT*** information to make a decision. Making a decision based on future information is impossible and thinking this way will leave you frustrated and confused. However, it is a good idea to mentally paper trade the "maybes" so that you can gain more market experience.

As a new trader, you must begin by always trading the same small size until you have gained the skill to change your bet size. Trade small in the beginning as there is no reason to risk excess funds when you have not proven yourself as a successful, consistent trader. You should always trade the same size until you have reached your pre set profit goals to move up in size. The risk is that if you are not experienced enough you may change your bet size at the wrong times and lose more money. Once you have gone up a few levels in lot size, you can begin to choose, not only when to trade, but how much. On the best trading day of the month, you should trade your max size at all times and on the worst trading day of the month, you should trade your smallest size, or not at all. Defining the best and worst trading days is done by using the formula we previously talked about, involving determining what type of market the day is and how well your strategy suits it. You can not tailor your strategy to fit today's market or future markets. You should know what type of market your strategy works in and when to be aggressive or conservative.

Example: If you trade a channel trading strategy, you should be inactive on trending days. Conversely, if you trade a trending strategy, you should be inactive on channel days.

Try not to get frustrated when today's market is not ideal for your strategy. You can not be upset about something that is out of your control. What is in your control is when to employ your strategy, and when the day comes that fits your game plan, be aggressive and execute your strategy properly.

As you progress and become a successful trader you must avoid these common mistakes:

1.) Take every trade the strategy calls
2.) Always trade the same size on every trade

As the market is unique every day, the quality of each strategy changes every day. Therefore, you must gauge how well the strategy is suited for today's market. Second, on days when the strategy perfectly fits the market, you must capture as much profit as possible, which means trading bigger. Conversely, if the day's market is exceptionally bad for the strategy you must trade very small or not at all. As new traders, you must only follow the first rule as you have not moved up in size and therefore can not vary your lot size.

IV. TIPS

Support and resistance areas are not to be blindly believed in, they are just a technical analysis tool like all the rest. They have value and are good to know, but are not enough for a well balanced strategy. Everyone knows the support and resistance levels in the product they trade, so if it was so easy to just buy support and sell resistance, everyone would be making money. I use support and resistance in two ways. First, if my strategy tells me to buy, but I am buying just before a big resistance level, I may not take the trade as I don't want the product to have any more added opposition than it already may have. Second, I like to use support and resistance to help me make decisions on exit price in a winner. If I am short and the market continues to go lower, I usually try to cover my position, or a portion of it, just above critical support levels.

Always ignore hot tips and don't get into a trade just because someone else did, you may have completely different views on the position and risk limitations. If you heard someone say that think the stock market is going up, do not go in and buy it. They may have different time or risk parameters. They may have a view over the course of the next month and may be willing to give it more risk than you.

V. DURING THE TRADE

During the trade you should be:

1.) Constantly evaluating your initial entry logic. If the reason you entered the trade no longer exists, just get out. Do not rationalize a new reason for staying in.
2.) Building mental scenarios of anything that could possibly happen and how you plan to react. If you get in the habit of doing this all the time, the market will never surprise you and you will be prepared to react, as opposed to being forced into making a split decision.
3.) Moving out price on winners. When you are in a winning trade, don't just sit back and bask in the glory of how great you are. Constantly, evaluate what is happening in the market and adjust your exit strategy accordingly. Remember that your initial profit target was just to gauge the risk reward ratio pre trade and that now, you are in charge of monitoring the trade to make the best exit possible, given the current movement.

Stop orders should always be put in, if nothing else in case of an erratic move. I was trading EUR/USD during the afternoon market when a clerk inadvertently sold $500,000,000 instead of $5,000,000. The price dropped 40 pips. These things can happen and they will occur too fast for you to exit the trade at a reasonable price.

If you are an active intraday trader, stops should be in case of an emergency, but you need to learn to pull the trigger on a loss during the battle. Do not just send your men into the war and wait to hear results. It is too easy to place your stop and target and sit back and see what happens. For intraday traders, this is the wrong move. You should use this opportunity to trade out of the position and learn what it is like to have to pull the trigger yourself.

Don't try to buy at bottom and sell at top, its unrealistic and unnecessary. Squeezing that last tick out of a trade just to get the price you want is not worth it. Don't get hung up on getting out at the very best price. It is not your job to pick the exact price that the move will stop at, and if you did, then it was just luck, not you predicting the end of a move.

Once you take a position, your entry price has to become irrelevant. You must trade the position as if someone transferred it to your account and you don't know what price it is from. It is very common for new traders to base their decisions in terms of their entry price and this clouds the perfectly objective mindset. The market doesn't know where your entry price is and is not going to move back to it just to allow you to break even on the trade. You have to gauge what is going on in the market and get the best exit price that you can get according to your strategy.

Game theory is important to understand. If you can gain insight into how other will react, you can be one step ahead. Knowing what the expected value of an economic release is will help you to gauge how traders will react when it occurs. Use this information to determine how the market will react.

VI. TRADE LIKE A ROBOT?

Educators will tell you to trade like a robot, and the point they are making is accurate, but not complete. By telling you to trade like a robot, they mean to remain objective and quantify all information to make a formulated decision. But this must be coupled with the insight your human side gains from experiencing a market. The feel you develop is what turns a 50% winning strategy into a home run. A robot would execute the strategy in the same manner all the time. But as a human, you must use your knowledge and experience to gauge the current state of the market and execute accordingly.

Never say it's going up, or it has to go up.

This establishes an incorrect psychological thought process that becomes difficult to break and sometimes difficult to even see. This is the most common psychological flaw I see in traders. Thinking in such absolute terms about the future of a trade is the exact opposite of what your job as a trader is, which is to make good decisions based on odds and probability. When I am in a good trade, I still always understand that it may not go any more in my favor regardless of what is happening in the market. I understand that I entered the trade based on a situation and I will exit when another situation occurs and that is all there is to it. A perfect setup will sometimes occur and I will enter the trade. If the trade does not turn out to be a winner, I am not upset. Just because the conditions were ideal, does not guarantee a 100% success rate of the trade. Even if I determine that a certain trade has a 90% chance of success, I realize that the 10% chance of a loss may be the result.

Do I always follow my game plan perfectly? No, but I have an uncanny ability to remain within my boundaries for extended periods of time and my momentary lapses of judgment never get that far outside these boundaries. Trading is like taming a wild beast within you. Your psyche will continually attempt to lure you astray, but you must find ways to control it and follow your game plan. It is impossible to achieve perfection and everyday you go to work you have to keep taming and keep yourself together. Everyone has momentary lapses in judgment, its all about who can contain them.

Just because positive news came out doesn’t mean the product is going up, and you shouldn’t get upset that it didn’t. ***Markets trade irrationally*** and there is always a reason behind each move. The market never moves on news, it moves on trader’s reactions to news, hence there is no formula that can tell you with certainty that a move will occur because of a news release.

If you are in a trade and are unsure about whether you should stay in it, first look at the logic that got you into the trade and make sure it still stands. If it doesn’t, don’t look to rationalize why you should stay in it. This is a very common mistake among new traders. They will create a reason to stay in the trade even after their initial logic is broken.

Example: One of my traders was long the British Pound and had an initial max risk of $800 on the trade. I saw him enter the trade and asked his logic. He said that the economic release came out bullish; he saw the short locals scrambling to cover and used this as an opportunity to get long. I was giving a TV interview that day and came back a few hours later to find him still in the same trade…. And he was -$4,100. I asked him why he was in the trade and he said that the Euro was strong so he was hoping that it would eventually pull the GBP higher. Sometimes you know the rules but get caught up in the heat of the moment and make a bad decision.

VII. TRADE EXIT

Trade exit is never as mathematical and logical as trade entry. Most strategies are based on entry with rough guidelines for exit on winners. You can predict the probability of a trade being a winner but you can not predict the distance the move will travel. The easiest way to explain it is that trade entry is a science and trade exit is an art. When entering a trade you know all the variables and quantify an expected result. When exiting a trade, you must use your market experience and the variables available to you, to make the best decision you can. Almost all exits on winners are either too early or too late, its just part of the game. Don't beat yourself up over trying to determine a structure to take the most profit out of your trades, just do the best you can and improve on each trade and each day.

A good way to control the unknown of trade exit is piecing out of your position. Obviously, you must have come far enough in your trading to trade multiple lots, but this helps with controlling the profits and easing your mind. By piecing out of a trade, you give yourself more control over the profits as opposed to picking one price to exit the position. Many traders struggle with the mental impact of exiting too early or too late. Piecing out allows you to have multiple exits and feel better about your execution. Even if you only have 10% of your position on for the whole move, it is easier to mentally handle than having nothing on and watching the move as a bystander.

Do not flip your position unless you can logically prove that the opposite way fits your trading logic perfectly. Do not assume that because a trade is moving against you, that you should flip your position. Each trade entry should be based on the rules of your system and not the emotions that you are feeling in a losing trade. Of course the exclusion to this is high volume scalping where traders may regularly flip their positions.

Support and resistance are usually followed by stop orders. Most traders, and even institutions, will place their stop orders just above resistance or just below support.

VIII. POST TRADE

Post trade evaluation and preparation for the next trade is very important. If you don't look back at how well you executed the entry, body, and exit of your trade, how will you ever learn from your experience? If the market is moving quickly, you may have a new trade setup right away. If this is the case, then wait to do the post trade evaluation until you have some downtime. Trade evaluations should only take into account how well you executed the trade given the information you had available to you at that time. You can not look back and say that you should have stayed in longer because you now know what the market did. Be realistic and objective in your post trade evaluation and remember that you learn as much from losing trade evaluations as you do from winning ones.

Prepare for the next trade as quickly as possible. Mentally remove yourself from your last trade and focus exclusively on the next trade. Carrying around the baggage of what you should have done is only wasted brain space and can not make you any new money.

Keep a trading journal. Write down how you did each day and some notes on what you learned. This will be useful when you go back over your notes and will help you remember some of the tips that you may have forgotten about. The first rule of thumb when a trader is in a slump is to look back over their journal from when they were making money. Sometimes reading your own notes is enough to pull you out of it.

IX. AT THE END OF THE DAY

It is important to be realistic about trading. Many commercials and websites understate the dangers of trading and overstate the ease of success. Trading can be easy, but the ultimate responsibility lies in you to create your own success. No one can push the button on your account but you, so you must find your own road to success.

The main reasons that I make money are:

1.) I manage risk extremely well
2.) I know when to vary size on my trades
3.) I can be very patient and wait for good trades to come

Being patient is hard for new traders as they generally get into trading because they love it and are excited, so any chance they get to take a trade, they will. This is ok in the beginning, but you need to recognize what is happening and eventually you need to learn to wait for the good ones.

New traders may also shift the blame of their lack of success to software, commissions, distractions, etc. Do not get in this habit, it is allowing yourself to avoid taking responsibility for your own decisions. I traded on Wall St. the day the markets opened after Sept 11, 2001. Our network had more downtime than uptime, but it was a busy trading day, so you just accept it and work through it. I knew guys who refused to trade, blaming the network for unreliability. But, I fought through it and made $50K that day.

Pros never emotionally remove themselves from the market after taking a loss. Veteran traders learn the ability to stay connected to the market and avoid getting distracted by a single bad trade. Practice composure after losing trades and focus on your task at hand. Your focus should always be on the next trade.

Common mistakes novice traders make:

- Many traders commonly ignore good advice, or aim to follow it, but in the heat of the moment, lose sight of their rules.
- They get married to their stop or target. If a trade is not working and you can take a scratch, just do it. Too many new traders figure that if they already have the trade on, they might as well let it go to their max loss. The same is true for your target. Just because it is the price where you would like to exit, doesn't mean that you should let your trade turn bad just because it hasn't hit your target. If things change in the market, just get out and take the winner.
- They let good winners turn into losers. Always adjust your stop and make sure you lock in some profits on your winners.
- They trade too big too fast. One day, one week, or even one month are not enough time to prove to yourself that you can make consistent money. Start small and only go up in size based on your net profitability.
- They add to losers. Never add to a losing trade. It is the easiest way to end your trading career.
- They rationalize missing their out price. Accept responsibility for all trades and their outcomes. If you let a trade get away from you, take the blame and find out how to avoid doing it in the future.
- They get too emotional. Stay objective, it's the only way to have a long trading career.
- They remove themselves from the market after a loss. Professional traders stay engaged and focus on the next trade. They don't sit around dwelling on their last one.

X. FIXING ISSUES

As I look back over my trading career, I see a pattern. During the times when I was having a difficult time, I would be working twice as hard and then one little tip would change everything. The reason I say that I was working twice as hard is that if you are struggling as a trader, but not really putting the effort in needed to succeed, then a little tip here and there will not have much impact. But if you are committed to trading and are trying so hard to find out how to "fix" your issues, then one sentence can sometimes give you the missing link to turn it around.

Back in 2000, I was making very good money trading equity index futures and all of a sudden it got harder. I felt like I was doing the same things but my profitability had rapidly decreased. I tried to fix it on my own for a few weeks but wasn't getting anywhere. So, I sat next to a trader who I respected, both in his skill as a trader and his work ethic, and just talked trading with him. I can't remember anything he said other than one sentence that stuck in my head. He said the he used time and sales just as much, if not more than watching the bid and ask price. I was trading a high volume scalping strategy and the ability to understand what was going on in the product at that exact moment was critical. I went back to my station and within a few days, I integrated the time and sales into my strategy. Voila, I was making money again and quickly got back to the top in the office.

I don't even know how he was using time and sales, but just to hear that he was, was enough information for me to fix my own trading strategy. He very well may have been using it totally different than I was, but just the fact that he was using it and I wasn't, helped me "fix" my problem. Trading on an island can be very difficult. If you can't gain insight and ideas from other successful traders, you can not access all the experience of veterans.

When I first left the floor and traded upstairs, I was trading the same ultra short term scalping strategy I was trading in the pit. Then one day a trader asked me how I did in the 10 Yr notes. I told him that I was marginally positive but I felt like I should have been up more. He looked at my trading log and said, "Why were you trading short at all, the Notes went straight up today." That little bit of information helped me transition from a strategy that worked well on the floor to a strategy that worked well on the screen.

Once again, applying the right strategy at the right time is what trading is all about.

Missing a move is perfectly normal for new traders and should not cause you frustration. Taking or forcing bad trades is a problem and should cause you frustration. Remember that there will always be more opportunities to enter the market, but if you lose too much on bad trades, you won't be around to capitalize on those future opportunities. Trading is fun, but overtrading leads to losses… which are not fun.

Trading is easy, IF you know the rules and follow them. The only 2 reasons that traders fail are, 1.) They don't know the rules 2.) They know the rules but don't follow them. Most new traders fail to find and properly disseminate the "right" rules.

TRADER NOTES:

MATH

"THE HOUSE ALWAYS WINS"

MATH

I. **Numbers Game**
Make money?
Employing a strategy
Two simple rules

II. **“Feel”**
Pattern recognition
Common misconception

III. **New Traders**
Lock in gains and ride losses
Trades can always get worse
Taking winners early

IV. **Expectations**
No guaranteed winners
Gambling
Casino owner

V. **Casinos**
Professionals vs. Amateurs
Bad decisions
Follow the rules

VI. **The Myth of the Win Ratio**
Win ratios
Front testing
Back testing & system trading

VII. **Fiscal Strategies**
“Months”
Basic assumptions
Fiscal game plans

VIII. **Strategy, Risk, & Math**
Strategy
Risk management
Math

MATH

I. NUMBERS GAME

As trading is a numbers game, the most important factor that you need on your side is math. You do not need to spend your time searching for the perfect mathematical system, as it does not exist. But, you need to make sure that the strategy you are trading has a sound basis in math. You also need to ensure that the way you employ this strategy improves its inherent math. Many new traders will take a strategy that mathematically wins 50% of the time, but the way they trade it, the win ratio ends up below 20%. You must choose wisely when employing your strategy and ask yourself, “Am I increasing or decreasing the mathematical outcome of my strategy by the way I trade it.” No two traders will trade the same strategy exactly alike and the key to success is maximizing the profit potential of your strategy by the way you trade it.

Most traders start their career off with one objective… to make money. Unfortunately, they miss the first step. The primary goal of trading is to stay in the game; the secondary goal is to make money. There are hundreds of analogies that I could use to illustrate this, but I will just choose one. If you are a rock star and you party too hard and can’t continue to tour or make music, you will be out of the business. Trading is no different. If you make decisions in your trading career that blow you out of the business, you will not be around to enjoy the profits that you’ve worked so hard to attain. If you keep coming back every day and you are following the rules, you will eventually turn the corner.

The two main components of employing a strategy are

1.) When to use it
2.) How to manage your profits and losses

Sitting on the sidelines when your strategy does not suit the market is the fastest way to improve your system's math. As you become an advanced trader, you will learn, not only when to employ your strategy, but also when to be aggressive with your trading size. The second component is your ability to manage your profits and losses. Can you manage your risk well and are you taking enough profits out of your winners? In the beginning, you will not have the profits side perfected, but the risk side should be perfect from day one.

The two simplest rules to ensure the appropriate profit and loss structure are:

1.) Never lose more than your initial max risk
2.) Don't let a decent winner turn into a loser

II. "FEEL"

Trading is not about knowing the future or going with your gut. Trading is all about risk assessments and event probabilities. You often hear traders talk about "Feel". The definition of feel varies greatly between new and experienced traders. New traders will often define feel as some gut reaction that allows a trader to predict what is going to happen in the market. And while feel actually is a gut reaction, experienced traders will tell you that that feel comes from years of seeing the same setups occur and recognizing the pattern you have seen before. The veteran definition comes down to the familiarity of mathematically sound setups, where as the novice definition is based on clairvoyance.

Feel is an important part of the game, but trading is just like any other job. If you have been building homes for 20 years, you will be quicker to foresee a problem and make adjustments to fix it. A new home builder will have to learn by trial and error until they develop the experience needed to exhibit the coveted magic of feel.

When new traders tell me that they entered a trade based on a feeling they had. I always describe to them that the "feel" they read about in books is not magic guessing, but the ability to recognize familiar situations and act on them. This fact usually dispels a common industry misconception that certain traders just "know" where the market is going. The truth is that they do know that the probability is high on a certain trade and they act on it, but I assure you, they can't see the future.

III. NEW TRADERS

As a new trader, it is likely that your natural tendency will be to lock in gains and ride losses. Don't feel bad, this is very common. The human psyche is mapped to hope losers will turn around and fear that winners will turn bad. As you begin your quest to become a successful trader, try working on reversing these emotions as early as you can. When you are in a losing trade, you should feel fear that the trade could continue to get worse. And, when you are in a winner, it is ok to hope that it will keep going.

Realizing that no matter how bad a trade is, it can always get worse is a tough lesson to learn through trial and error. If your trade is going the wrong way and you are focused on hoping it turns around, you are only watching the upside potential. You should be recognizing the true risk of it and focusing on cutting your losses.

New traders love taking winners early. This is because they don't want to go through the mental anguish of taking another loser. I can certainly understand this emotion, but you have to realize that if a trade is a winner then you have to give it the room to become a bigger winner, otherwise your losses will always be bigger than your gains.

IV. EXPECTATIONS

Have you ever put a trade on that you "expected" to win on? If you have, then you need to determine what you really meant by the word "expected". Be honest with yourself and decide if you actually thought that the trade was a guaranteed winner from the beginning or whether you just thought the probabilities were in your favor. Remember, you don't expect to win on a trade, you expect the odds to be in your favor. Additionally, you should always expect that you will execute properly and have the poise to trade your strategy with confidence.

Realize that what the market does is out of your hands. Not only can you not control it, but you can't even guess where it's going to go. But, the good news is that it is not your job to predict the future. It is your job to play the odds. Even if you see a trade setup that statistically has a 95% chance of being a winner, it still also has a 5% chance of being a loser. High probability trades often come with an inherent expectation of a win. But you have to understand that no matter how good the trade setup is, you must be mentally prepared to take a loss. Don't get frustrated because a good setup went bad. It's just part of playing the game.

While we are on the topic of odds, let's talk about gambling. There are two components of gambling, the house and the gambler. The house, or casino, has no opinion or concern for individual transactions. This is because they know that they have the ability to keep the odds in their favor and they expect to have a cumulative positive outcome. The gambler knows that the odds are against them, or let's hope they do, but they find the risk worth the reward. New traders always start as the gambler. You must learn the ways to become the house.

Here is one example. Have you ever taken a trade that you executed perfectly and still lost? The answer has to be yes for anyone that has actually traded. Next question, did it upset you that the loss occurred? Now, have you ever met a casino owner that was upset about a loss they just took in a single game? Of course not, because they expect to have losses and they know that losses are part of the game and their job is just to make the winners outpace the losers. If this is the case and you are learning to position yourself as the house, then why should you be upset about a loss you just took, even if you executed it perfectly.

V. CASINOS

Let's use the casino analogy to find other ways to quantify your trading. Over time your losses must exceed your winners. So that means cutting your losses and maximizing your gains. Do casinos try to popularize certain games? Of course, because they have done the math and know the statistics on how gamblers play.

If you separate out the gamblers into two groups, professionals and amateurs, and if you had a casino that only allowed amateur gamblers, they could probably offer games that have a 60% chance for the gamblers to win, and the casino would still make money. How? Because amateur gamblers would make the same mistakes as amateur traders do and add human decisions to the game that lower the 60% win ratio to a 30% win ratio. Go to Vegas and hang around the tables and observe the common gambler. It is a great way to see all the faults that traders have. It is hard for new traders to recognize these faults when it comes to trading, but if you watch a gambler make bad decisions, it becomes obvious.

Let's look at some examples:

1.) A gambler says, "Screw it; I'm already down $1,800, what's another $100 at this point?" This is what I call the black hole. All traders get sucked into the black hole at some point. You will know you are in it when you don't care about adding more losses to your screen and no winner is ever enough. In the black hole, objectivity does not exist. Your judgment is impaired and you will only make bad decisions as your focus is on trying to force a miracle and magically make all your money back, rather than evaluating each trade on its individual merit. Generally, if you are in a black hole it is because your strategy is not suited for today's trading. So why continue to throw more money at low probability setups? Wait for a better day to risk your capital.
2.) A gambler goes to Vegas planning on only risking $500, but ends up losing $4,000. As a trader, you must realistically determine how much you can afford to risk to learn how to trade, without impacting your overall financial situation. Losing more than you can afford to lose is a sure way to leave a bad taste in your mouth for trading.
3.) A gambler sits down at a table with no game plan and no analysis on what the odds of the game are. As traders, it is your job to thoroughly examine the odds before you place your first trade. A game plan and a fiscal strategy are crucial to have and follow before you start risking real capital.
4.) A gambler drinks too much and his judgment is impaired. While it is highly unlikely that traders are drinking during the trading day, there is still a valid comparison. Your emotions can cause you to make bad decisions and impair your judgment. Just like a gambler can not maintain objectivity while drinking, a trader can not maintain objectivity when their emotions run high.
5.) A gambler bets on every hand and does not wait for the right setup. In many casino games there are no edges and each individual outcome has no bearing on any future outcomes. However, in many card games, waiting for the right setup has made gamblers millions. In trading, I can not stress enough the need to know when to employ your strategy and when to sit on the sidelines. This simple rule can take an average strategy and make it great.

I rarely gamble, but the combined results of the times I have, is positive. This is not because I have some system that beats the odds. It is because I employ sound risk management and recognize that the odds are against me. I always have a max loss for each game and each day in Vegas. So, before I ever board the plane, I know what my worst case scenario is. When I am up at a table, I always have a dollar value that I will walk away from the table with. For example, if I am up $2,000, I may have a mental stop loss at +$1,700, where I pack it in for the night. I also know that the odds are against me and that I will need luck to finish ahead, but I also know that my risk and profit strategies put me in good shape to capitalize on this luck…. If it should occur. And most importantly, I have the ability to follow my own rules without variance. I could tell this same game plan to 100 people, but how many would actually be able to strictly follow the rules when they are at the tables?

That's the difference between many failed and successful traders. Given the same exact trading and fiscal strategy, how many traders could actually follow the rules during the rush of the trading day?

VI. THE MYTH OF THE WIN RATIO

Win ratios are determined by formulating a series of results on a trading system, that trades the same size at all times and enters every trade that meets the requirements, regardless of other prevailing factors. You will hear people say that they have a trading system that has a 60% win ratio. First let's deduce what this really means. They have no doubt optimized it to fit the period they chose to back test it in. Optimizing is a way of continually changing variables until your trading strategy "fits" the past data you are using to back test it on. Assuming the market exactly repeats itself, the strategy will work just fine. Unfortunately, this is rarely the case. And if they do have a strategy that actually wins 60% of the time, why don't they have a robot trade it and spend their days on a beach in Tahiti?

Many new traders get hung up on what win ratio a strategy has. I have traded strategies that have probably had a win ratio of 20% and still made money. If you can determine when the 20% occurs, you can make money by trading it only then, and simply not trading during the other times. I have traded other strategies that have probably had a win ratio of above 70% on certain days and a win ratio of 30% on other days. I use the term "probably" because I do not spend my time back testing to find out how good a strategy "USED to be". I "front-test" it on small size. If I normally trade $20,000,000, I will try a new strategy on only $1,000,000. In my opinion, the countless hours spent back testing a strategy can not compete with real life testing in a live market.

A side note to back testing and system trading: Many large institutions spend millions on back testing strategies and make money doing it. First, you need to realize that you are not one of these institutions, so don't believe that you can replicate their infrastructure. And, second they have decades of experience in knowing how to employ their strategies, and you do not. This is no different than in any other industry. If you wanted to open a store that sells everything, could you compete with Wal-Mart in your first year? Stick to what you can control and what works for successful traders. Sound fiscal strategies and proper employment of trading strategies.

Bottom line:
You do not need to have 50%+ winning trades to be profitable. Especially if you are trading with the trend, and executing properly. Counter trend strategies typically have a low percentage win ratio and require drastic changes in size to achieve positive results.

VII. FISCAL STRATEGIES

Let’s do an analysis on roulette. Since there is no way to gain a statistical advantage playing roulette, you must first decide how it is possible to achieve profits. There are only two ways to make money playing roulette. First, if get lucky enough to have a string of winners. Second, if you increase your bet at the right time. By this, I mean you get lucky. If neither of these two events occur, you will most likely incur losses. While this information does not offer a trading strategy for roulette, it is still the groundwork for a fiscal strategy. In trading, you must know what it is actually going to take for you to become profitable. Does your trading system require you to put together a series of winners (which would be a high win ratio), or does your strategy wait for the ideal setup and trade big? As a new trader, it is difficult to determine the perfect market to employ your strategy. It is also difficult to follow the basic rules. In time, you will improve in both of these areas. Some easy ways to gain a statistical advantage in trading are: Trading with the trend, trading products with larger average ranges (that you can still manage risk in), or employing a strategy that has a large risk reward ratio.

Professional traders always trade in “Months”. By this I mean that each month is its own separate trading range. The beginning of each month is always a fresh start and the fiscal strategy you employ is based on approximately 20 days of trading. Before you enter a new month, you must establish your fiscal strategy. There are many ways to achieve this goal, but I will use the example that works for me.

Let’s start with some basic assumptions. I will have losing days. I will have winning days. My total winners need to outweigh my total losers. It is important to recognize and define these assumptions as many trader feel frustration over a losing day. A losing day that fits in your game plan should be easy to accept. Of course, if your losing day falls outside your risk parameters, then you should be concerned and determine how to avoid making the same mistake again.

Let's take a look at a real fiscal strategy before the month begins: (The column "DAY" does not represent the date or chronological order of the month, it simply represents the trader's profit and loss ranking of their trading days. DAY 1 being the worst day of the month and DAY 20 being the best day of the month)

DAY	PLAN
1	-$1,000
2	-$500
3	-$400
4	-$300
5	-$250
6	-$200
7	-$150
8	-$100
9	-$50
10	$0
11	$50
12	$100
13	$150
14	$300
15	$500
16	$800
17	$1,000
18	$1,200
19	$1,700
20	$2,500
TOTAL	$5,350

This is one of my new trader's actual fiscal game plan for the month. As you can see, he has set his targets on a few big days creating his profits, and on all the other days cancelling each other out. This game plan is sound and usually standard for most traders. The three important parts to his game plan are:

1.) The losing days are manageable in size
2.) The middle days have good consistency and average out to a small positive
3.) The winning days are the largest and easily outweigh the losing days

Now let's take a look at two examples at the end of the month. First, we will assume that the trader was able to improve on his fiscal game plan: (ACTUAL are live results from trading and DIFF is the net change between PLAN and ACTUAL)

DAY	PLAN	ACTUAL	DIFF
1	-$1,000	-$612	$388
2	-$500	-$314	$186
3	-$400	-$215	$185
4	-$300	-$165	$135
5	-$250	-$85	$165
6	-$200	-$21	$179
7	-$150	$55	$205
8	-$100	$147	$247
9	-$50	$189	$239
10	$0	$251	$251
11	$50	$265	$215
12	$100	$289	$189
13	$150	$315	$165
14	$300	$321	$21
15	$500	$355	-$145
16	$800	$451	-$349
17	$1,000	$1,423	$423
18	$1,200	$1,501	$301
19	$1,700	$2,592	$892
20	$2,500	$2,875	$375
TOTAL	$5,350	$9,617	$4,267

In this case, the trader was able to shift his entire fiscal strategy higher and only had two days of the month that were worse than expected. Based on the trader's pre month game plan and the actual results, I would grade the trader at an A+ on actual results. Let's look at how he did it:

1.) He managed to keep his losers smaller than he had planned
2.) His middle days resulted in a larger positive than anticipated
3.) His winning days exceeded his initial targets

Now let's take a look at a trader with the same fiscal strategy that traded poorly:

DAY	PLAN	ACTUAL	DIFF
1	-$1,000	-$2,136	-$1,136
2	-$500	-$1,574	-$1,074
3	-$400	-$971	-$571
4	-$300	-$851	-$551
5	-$250	-$526	-$276
6	-$200	-$516	-$316
7	-$150	-$487	-$337
8	-$100	-$459	-$359
9	-$50	-$300	-$250
10	$0	-$51	-$51
11	$50	$162	$112
12	$100	$198	$98
13	$150	$265	$115
14	$300	$319	$19
15	$500	$401	-$99
16	$800	$436	-$364
17	$1,000	$519	-$481
18	$1,200	$655	-$545
19	$1,700	$697	-$1,003
20	$2,500	$705	-$1,795
TOTAL	$5,350	-$3,514	-$8,864

In this case, the trader was unable to reach his target and created a shift to the downside. He had 16 days that were worse than expected. Overall, I would grade this trader at a D-. Let's look at his trading in detail:

1.) His losing days were much larger than he had planned
2.) His middle days equated to a loss
3.) His winning days were not big enough to outpace the losing days

These are two extreme examples, but they give you an idea of how to create your own game plan and quantify your results. Reviewing your game plan at the end of the month is a great way to grade yourself in black and white.

Keep track of all of your months and make sure that you are improving your results over time.

It is also important to note that when you are creating your fiscal strategy for the month, you must be realistic. If your best trading days are only $800, then do not set a target of $2,000 on your winning days. Each month you should create a new fiscal strategy that is realistic, and based on your previous results.

Your fiscal game plan will also predetermine your expected results and allow you to comfortably accept a losing day. Many new traders feel down after every losing day, but losing days are just part of trading and you need to learn to accept them. If your losing day is an improvement on your expectation, then you did your job. Conversely, if your losing day shifts your fiscal strategy downward, then you need to determine where the problem lies and fix it.

I have seen talented traders come to work with no game plan for the month and just sit down and trade. This can create a problem, because if you don't how you plan to make and keep the money this month, you are at the mercy of unknown results.

VIII. STRATEGY, RISK, & MATH

STRATEGY:

Define realistic goals based on the strategy you trade. Example: If you are trading a trending pyramid strategy, you know that one or two months will make your whole year and the other months just need to cancel each other out. If you are trading a scalping strategy, your down months must be rare and have limited impact on your account and your up months must be consistent and good.

After you define these goals, you can create a fiscal game plan that is suitable for your strategy. Your fiscal game plan has to suit your strategy. Having a good strategy but using the wrong fiscal game plan can ruin it. The two are intertwined and must be employed in proper pairs.

RISK MANAGEMENT:

Managing risk is the key to staying in the game. Setting a maximum loss per trade and a maximum loss per day are required. You can not vary from these risk parameters or your account will suffer. If you have hit your maximum loss for the day, you must have the discipline to keep from trading for the rest of the day. Establishing a risk management structure must be coupled with the discipline to institute it. The fastest way to end your career as a trader is to take larger than expected losses.
It is also easier to pull the trigger on a quick move that gets you out than a slow move that just bleeds your account. Just like if you put a frog in boiling water, he will jump out, but if you slowly increase the heat of the water, he will stay in it. You can never let a trade get away from you and skew your risk structure…. Just get out.

Portion control:
Piecing out on winners is a great way to control the profit side of your trades, but if it's a loser than don't piece out, just dump it.

MATH:

Trade small until you can consistently make money. If you have not proven to yourself that you can make consistent money, then why would you risk additional capital? Remember, no matter how good your system is, it can always take consecutive losses, so trade small enough size, that it will still keep you in the game if things don't go your way.

Move up in your maximum size based on your own rule of net profitability. Determine this structure before you start trading and stick to it. Here is a basic example of a maximum lot size spreadsheet:

NET PROFITS	MAX LOT SIZE
$0	1
$2,000	2
$4,000	3
$10,000	5
$25,000	10
$50,000	20

A simple sheet like this will keep you from making a mistake and moving up in size just because you had one good day. As your overall net profits exceed $2,000, you may move up to 2 lots per trade. As your overall net profits exceed $4,000, you may move up to 3 lots per trade. You get the picture. This sheet is only an example and you should make your own unique spreadsheet that suits your trading.

Always remember that money management takes priority over your strategy or indicators. Many traders will hold a loser past their stop loss because their strategy indicates a move in their favor. This is backwards thinking and causes excess losses and frustration. Money management is always the most important factor in your game plan.

If you look back over the details in this lesson, you will see that professional traders don't just go to work and wing it. They always have a game plan and defined rules for their risk management. I highly recommend that you follow these rules. They will improve your trading and help you manage the psychological difficulties that are inherent in becoming a professional trader.

TRADER NOTES:

PSYCHOLOGY

"ALL TRADERS BEGIN THEIR CAREER AS MR. HYDE.
FIND YOUR DR. JEKYLL…. FAST"

PSYCHOLOGY

PSYCHOLOGY

The psychology of trading is a broad topic but a very important one. You will hear many traders that rank psychology as the number one factor in being successful. Trading is not like any other job. In trading, you must only master yourself to become successful. Every trader's psyche is unique, but there are many common psychological factors that affect all traders.

I. DISCIPLINE & OBJECTIVITY

The most important psychological factor is discipline. Discipline is the foundation on which all other aspects of trading are built. If you can not control yourself and follow the rules, then you can not succeed in trading. Over the years, I have trained many traders, both with strong and weak discipline capabilities. It is interesting to note that most traders with a background in the military, martial arts, or competitive athletics usually have a strong propensity to exhibit discipline. Discipline in trading is no different than discipline in your daily life. Can you set guidelines for yourself and follow them?

But, let's back up a minute. Just because you joined a gym and never went doesn't mean you are not cut out to be a trader. But, if you set goals and rules for yourself and find it difficult to work toward them, then finding the discipline necessary to succeed in trading may be difficult.

Many traders never even establish rules and end up feeling like they can never quantify how they are doing. Step one is determining the rules and step two is following them. If you have a basic rule that you will not lose more than $500 on any trading day, yet you watch a losing trade slip to -$2,000, you have failed in the area of discipline.

Trading will challenge you and at times you will question yourself. This is something that every trader goes through. Every successful trader has hit a point in their career that causes them to question themselves and their trading ability. The traders that continue moving forward are those with the mental toughness to fight through the adversity and overcome obstacles.

Bottom line: Set your rules and follow them, or you will never become a successful trader.

In an effort to avoid breaking the rules, some traders will rationalize changing the rules to suit their current situation. If you rationalize a change in your game plan just to suit a certain trade, you are not accepting responsibility for you actions. Here is an easy way to avoid this: Do not change a rule intraday. All rule changes must occur outside trading hours.

You must accept responsibility for all actions that occur in your trading. As soon as you realize that you are blaming someone or something else for your loss, you have lost control of your psyche. If you shift the blame, you will not look internally to find out how to avoid making that mistake again in the future. A passive way to avoid accepting responsibility is complaining. Bad traders complain all the time, whereas good traders keep their head down and focus on the task at hand.

Objectivity is a term you will hear often in trading. It refers to the ability to view trading with an unbiased outlook and remain uninfluenced by emotions. Remaining objective allows you to make sound judgments in your trading day. Here are a few tips on how to ensure that you are remaining objective:

1.) Never let emotions influence your decisions. This includes frustration on bad trades and excitement on good trades.
2.) Always think in probabilities, just do the math.
3.) When you enter a trade, immediately mentally realize your max loss. Many traders enter a trade and immediately count their potential winnings.
4.) Avoid forming a bias. The market never “HAS” to go up. Instead, say things like, “If this buying continues to come in, odds are that the market will go higher.”
5.) Don’t let your previous trade outcome affect your current trade. Once you are out of a position, let the baggage go.

II. EXPECTATIONS

Expectations can be rational or irrational and place a preconceived notion on an unknown outcome. You may have expectations that a certain trade will be a big winner. But what happens if it's a loser? Will you be shocked and disappointed? You may have expectations that you will make millions in your first year trading. But what happens if you don't? You will be shocked and disappointed.

Expectations generally come from some real event, but are misconstrued into something that does not follow a logical path of thinking. If you take the same type of trade that you took yesterday, and you won on that trade yesterday, should you expect to win on the one today? The answer is no. You may very well determine that the probability of a winner is high, but you don't know that it will be a winner. What if you have a good week trading and quit your day job? This decision is based on a real event, the good week of trading, however, that is no reason to believe that every week will be as good as this one. What you should say is, "That was a good week, the probability of becoming a career trader has likely increased."

Trading can be frustrating and believing that certain events will occur will leave you confused when they don't. If you actually believe that you know which direction the market is going to go, you have broken a cardinal rule. Let's look at the possible outcomes of this belief. If the market goes the way you predicted, you feel like a hero and have a false confidence that reinforces the belief that you can tell the future. If the market goes the other way, your confidence will take an unnecessary hit because of your appeared failure. It is always better to think in terms of probabilities, rather than finite outcomes.

Here's an important phrase to get familiar with. "I will have losing trades." It sounds simple, but you would be surprised how many people get into the business without even realizing that losing trades are guaranteed to be part of the game. If you were a professional football player, would you expect to win every game of your career? The same is true with trading and you should embrace the fact that you will have losing trades. As a matter of fact, traders usually learn much more from losing trades as they spend time analyzing what they did wrong. The analysis of winning trades can get lost in the shuffle between all the cheering and high fives.

Let's look at two examples of trades and you decide how I should feel after each:

Trade #1: I entered the trade long at an ideal point in the market. I recognized a negative change in other related products and exited quickly for a 2 tick loser, which was much better than my original stop of a 10 tick loser. The market quickly went lower following my exit. Net result -2 pips

Trade #2: I entered the trade short after hesitating to pull the trigger and got a price that left me with no choice but to take 20 pips of risk. The market went lower and I got out for a 30 tick winner with no basis for my exit. The real reason I got out was that I knew I had a problem with my entry price and the excess risk I was taking, so I felt like the 30 pips was a blessing. The market quickly went lower after my exit. Net result +30 pips

Answer these questions based on post trade evaluation:

A.) On Trade #1, should I feel good or bad about the trade?
B.) On Trade #1, should I feel like I lost 2 pips or like I gained 8 Pips?
C.) On Trade #2, should I feel good or bad about the trade?
D.) On Trade #2, did I make 30 pips on sound trading or luck?

Here are the answers:

A.) I should feel good about the trade. I entered and exited it well and managed the position properly.
B.) I should feel like I gained 8 pips. When I entered the trade, my max loss was 10 pips, so I immediately mentally accepted that loss. But, my quick observations allowed me to save myself 8 pips by getting out early.
C.) I should feel bad about the trade. I entered into a position without regard for my proper risk structure and exited too early.
D.) I made 30 pips on luck. Something as simple as getting in at a really bad price changes the odds of my trade being a winner. Therefore, even though the odds were that the market was likely to go lower, I made a poor decision that left me exposed.

It is important to recognize the point of this lesson. Post trade evaluation and how you should feel have nothing to do with whether your trade was a winner or a loser. In fact, a winner or a loser should have the same emotional impact, given all the other variables remain the same. This is the part of the lesson where new traders look shocked. Inevitably, someone will say, "I thought we were supposed to feel good about winners and bad about losers." This is a common misconception that leads back to the gambler's mindset. Gamblers feel good about winners and bad about losers, so shouldn't traders feel the same? The answer is absolutely not. This is a trait that sets apart the gambler from the trader.

The market will go where it's going to go and there is nothing that you can do about it. All you can do it make sound decisions, limit risk, and maximize profit.

Bottom line:
Your emotional state and evaluation after a trade should exclusively be based on your decisions and how well you handled what the market threw at you, NOT the financial outcome of the trade.

III. Lottery Vs Start Up Company

Should you trade with the mindset that you just bought a lottery ticket or that you are starting a new company?
Let's analyze it further on the key attributes in trading:

- Risk: The lottery ticket has a finite amount of risk that you know before you play the game. A start up company has a budgeted amount of risk that may change over time.
- Reward: The lottery ticket has varying levels of reward that are statistically stacked against your chances of winning. A start up company has unlimited reward that you have control over by working hard and smart at your new company.
- Emotions: When buying a lottery ticket you have already mentally accepted the loss of the ticket and would be happy if you win. Your start up company is your blood, sweat, and tears and you are emotionally involved in it. You have probably risked part of your nest egg to start it and you are not willing to let it fail.
- Edge: You realize that no matter what you do, you can not gain a statistical advantage in playing the lottery. In your new start up company, you can make decisions that allow you to put the odds of success in your favor.

The answer is a little of both. There is much to learn from both scenarios. You should approach trading with the Risk and Emotions of buying a lottery ticket and the Reward and Edge of starting a new company. Here are the key points to this lesson as they relate to trading:

1.) Approach trading by having a finite amount of risk on each trade, each day, and your overall account. Think of trading is in this way, "If nothing goes my way, I'll lose a little. If some things go my way, I'll make a little. If many things go my way, I'll make a lot."
2.) If you work hard and smart at trading, you may be able achieve riches beyond your wildest dreams.
3.) Don't get emotionally involved in a trade and mentally accept the loss as soon as you put it on.
4.) You can gain an advantage in trading and position yourself as the house rather than the gambler.

Understanding other people's psychology is one of the best weapons in a trader's arsenal, behind sound risk management and discipline. It allows you to feel what others are feeling and act on it. If you are not in a position, but a series of events causes your conscience to tell you, "I would not want to be long after seeing this". Then think of how many other people saw the exact same thing as you and had the exact same thought.

Example: Cadillac recalls 30% of all Escalades for defects and they can't figure out what is wrong. Immediately, you know that people that own Escalades will be dumping them in the secondary market and the prices will drop. You also know that the demand for new Escalades will be low. That is common sense that anyone can understand.

A trader would think of all those people that want to buy the Escalade and figure out what other cars they may buy instead. This gives the trader the ability to buy them first, ahead of the demand curve that is likely to occur. Understanding what other people are going to do, and why are critical principles for gaining market "Feel".

IV. TRADER'S FEEL

Trading is not about knowing the future or going with your gut. Trading is all about risk assessments and event probabilities. You often hear traders talk about "Feel". The definition of feel varies greatly between new and experienced traders. New traders will often define feel as some gut reaction that allows a trader to predict what is going to happen in the market. And while feel actually is a gut reaction, experienced traders will tell you that that feel comes from years of seeing the same setups occur and recognizing the pattern they have seen before. The veteran definition comes down to the familiarity of trade setups, where as the novice definition is based on seeing the future.

Feel is an important part of the game, but trading is just like any other job. If you have been building homes for 20 years, you will be quicker to foresee a problem and make adjustments to fix it. A new home builder will have to learn by trial and error until they develop the experience needed to exhibit the coveted magic of feel.

When new traders tell me that they entered a trade based on a feeling they had. I always describe to them that the "feel" they read about in books is not magic guessing, ***but the ability to recognize familiar situations and act on them.*** This fact usually dispels a common industry misconception that certain traders just "know" where the market is going. The truth is that they do know that the probability is high on a certain trade and they act on it, but I assure you, they can't see the future.

V. TIPS

- Limit the distractions that negatively impact your trading. Trading requires focus and discipline, and distractions can hinder your ability to achieve your desired results.
- When in a trade, focus on the risk, not the reward. You gain nothing by counting potential money in your head.
- Never let a bad day get worse day. If things aren't going your way, stay in control and don't let one tailspin wipe out your account.
- Keep a journal that includes information on trading, fiscal strategies, and psychology.
- Keep your eye on the prize. Frustration and emotions cloud your judgment and impede your ability to make money.
- If you are in a trading slump, lower your lot size until you can come out of it. There is no sense in risking excess capital when things aren't going your way.
- Don't take it personally. The market isn't out to get you. If the market is throwing you curve balls, then reevaluate your strategy and implementation.
- Don't try to make it all back in one day. Stick to the game plan and trade like you are hitting singles, not swinging for home runs.
- Don't fight with the market. Play with it.
- Trade in the present. Beating yourself up over what you have done in the past is counterproductive and trying to predict the future is impossible.
- Accept your losers and learn from them.
- Don't sulk after getting out of a trade and watching it go your way. You must focus on your job and the next trade.
- Remain calm. Under duress, people tend to make bad decisions based on emotions.
- Forget about money and focus on learning the skill and winning the game.
- Be realistic with your goals. You can't become a doctor, lawyer, or astronaut overnight and becoming a trader is no different.

VI. LAPSES IN JUDGEMENT & ALTER EGO

All traders experience what I would call "momentary lapses in judgment". This is when you break your own rules. Frustration is usually the catalyst and it causes you to make a decision based on emotions rather than logic. There is no way to permanently avoid these lapses. You just need to find a way to limit their occurrence and damage. Let's look at an example. You take five trades in a row and they are all losers, then a bullish economic release comes out and you get long. The market drops and you hit a point of extreme frustration. For a few seconds, you lose sight of everything you have learned and you add to your losing position.

You must recognize when this is happening and manage the risk you are taking during these outbursts. Try to take a big step back as you feel it coming on. Remember, nothing good ever comes from making irrational decisions out of anger.

Many traders slowly bleed their account from poor decision making. And some traders have the skills to be successful, but experience a few large scale lapses in judgment that prevent them from making money.

ALTER EGO:
Your psyche will constantly challenge you in trading. It is like an alter ego inside your head that constantly tries to trap you into making poor decisions. Even traders with 10 or 20 years experience regularly battle this. The human mind is filled with emotions that hinder your ability to trade objectively. It is best to realize now that you will never become the perfect trader, as it does not exist. The perfect trader would be able to trade with the objectivity of a computer, but be able to use human insight and market understanding to make decisions. All traders have their own demons to work through that are unique to them. Many of these demons have to do with a lack of objectivity, which is caused by an excess of emotions. Instinctual issues are difficult to control as they are part of your genetic makeup and you must change the way you think to succeed. Circumstantial issues are those that are outside of your genetic makeup and can be fixed with more ease. Recognize your trading faults and strive to fix or control them.

Create your own daily checklist of any issues you recognize and grade yourself regularly. And remember, the first step to achieving mental strength is being honest with yourself.

The psychology of trading is a subject that is often written about in books. It is one of the topics that traders, psychologists, and authors have tried to define for years. Most trading psychology books have value as there may be a few chapters that relate to your specific problem. It is good to read these books, but keep in mind that the point of understanding trading psychology is to make your life simple, not to complicate it.

TRADER NOTES:

TRADING FOREX

"THE GOLD RUSH OF THE NEW MILLENIUM"

TRADING FOREX

I. FX Trading

Fundamentals
Psychology
Largest market in the world
Volatility

II. Practical Application

Efficient market
Technical indicators
Fibonacci
Goals
Time constraints
Stop orders
Liquid pairs
Correlated pairs

III. Economic Releases

Interest rate decisions
FOMC Meeting minutes
Fed & Central Bank speeches
Non-Farm Payroll (Unemployment)
Core CPI
PPI
ISM Manufacturing Index
ISM Non-Manufacturing Index
Trade Balance
Core Durable Goods Orders
Retail Sales
New Home Sales

TRADING FOREX

I. FX TRADING

This webinar is intended to help you trade in the FOREX market.

First and foremost, all FX trades occur in pairs. There is no way to just buy the Euro in FX, you must buy the Euro against another currency. Additionally, each currency also trades in pairs against all other major currencies, giving you plenty of options. The easiest analogy to understand this is that all currencies are like boats in the same pond. There is no way that one can move without impact one of the others. If the USD is rallying that means that one or more other currencies are breaking, or going down.

Many traders focus on the fundamentals of the Foreign Exchange market. The fundamentals are important to be familiar with, but trading exclusively off of this data is not sufficient for a complete strategy. Remember that the currency market does not move off of fundamentals, but rather off of trader's perceptions of the fundamental information. Just because you think and economic release is bullish doesn't mean that the market has to go up. Psychology causes all moves in the FX market. Trader's emotions and opinions on news and economies cause them to enter orders, which causes the moves in FX. By this I mean that just because apparently positive news came out on the USD, does not mean it HAS to go up. How traders and banks interpret and react to that news causes the move.

FX is largest market in the world and fundamental news is the most likely event to cause traders to act. If the economics are causing traders and banks to move the market in one direction, make sure you are not caught in a position the other way. Never fight a trend in the FX market. It is too big and too strong to stop on a dime.

The volatility in the FX market changes from day to day. The key to trading FX is to know when to trade and when NOT to trade. There are many days when the action is low and these are the times that newer traders lose money. Wait for the right day that suits the strategy that you are trading. Knowing when to be aggressive or conservative when employing your strategy is an important factor and can be the difference between profits and losses.

Most new traders that don't succeed in FX trading either fail to find the right trading rules, or chose not to follow them. In practice, this means that most failures come from overtrading their account or a single big loss that blows them out.

Trading FX is not like the stock or futures market. There is no central exchange and price availability can be difficult to find. Getting an order filled can be a difficult hurdle for FX traders. The advantage to FX is that retail platforms usually do not charge commissions. So, even though it may be challenging to get a fill, here and there, at least you don't have to fight the commissions as in trading other products.

II. PRACTICAL APPLICATION

FX is a unique and efficient market that is difficult to gain an edge in. Therefore, setting a goal of consistent daily gains is unrealistic. For example, how I make money in FX is by trading smaller during average days then on good days, I increase my size to as much as ten times to make those days count. As a new trader, this is impossible and risky to do. This is yet another reason why it takes time to become consistent and make real money. While there are no shortcuts in trading, the end result of a committed trader is worth the effort.

It is easy to fall into the habit of trading exclusively off of technical indicators. I recommend using intermarket analysis and trend trading to start. If you find that you prefer to use technical indicators, then follow these rules:

1.) Don't employ your methodology in the same manner every day. Each day in FX is different and you should trade accordingly.
2.) Determine what factors make your indicators work as well as not work.
3.) Recognize that all technical indicators work SOME of the time. It's knowing when to use them that make great traders.

The most popular style of trading in FX is Fibonacci. It seems to be the one method that all new traders cling to. Remember that there is value in watching Fibonacci levels, but that these levels alone are not enough for a complete trading strategy.

Because the volume in the FX market is so big, you can set your goals on a small amount of pips. If you can consistently make 60 pips per month, then you can make an unlimited amount of money trading FX. After each winning month, just increase the lot size that you are trading and stick to your original game plan. Over time, you will see your account grow at a more consistent rate than shooting for a target of 300 pips per month. Making 60 pips per month is not difficult in FX, but you need to have the discipline to follow the proper trading rules at all times. The FX market is unforgiving and can cause a huge amount of pain very quickly.

Understand the limitations of your time constraints. Not everyone can trade the European and American market hours. Determine what time you can allot to trading and choose the pairs that are most active during that time.

I highly recommend using stop orders no matter what time frame you use to trade. But, if you are entering positions and leaving your computer, you must use stop orders.

Choose the more liquid pairs to begin with as you will have a better ability to control your risk. The more volatile pairs can be very tempting, but you need to learn to master your craft before you can enter into a high risk arena. The EUR/USD and USD/JPY are the most popular and “safest” currency pairs to trade.

If you are an intraday trader and you enter a position, make sure to watch all other currency pairs that could affect your outcome. One of the advantages to the FX market is the high number of correlated pairs. Use this information to make your decisions. Don’t get caught watching one technical indicator in the pair you are trading and get run over by a move caused by another pair.

IV. ECONOMIC RELEASES

The final section of this lesson will focus on educating you on the economic releases that impact the FX market. Economic releases can cause violent moves in the FX market. If you have not proven yourself as a consistent FX trader, then just observe the moves during major economic releases to gain experience. The following are a list of major economic releases that you should be aware of:

- **Interest Rate decisions:**

  Source: Fed & Central Banks
  Measures: Any change to the short term interest rate and future monetary policy
  Impact: Interest rate statements have a huge impact on the currency. Expect high volatility.
  Notes: It's the primary tool the Fed & Central Banks use to communicate with investors about monetary policy. It contains the outcome of their vote on interest rates and commentary about the economic conditions that influenced their vote. Most importantly, it discusses the economic outlook and offers clues on the outcome of future votes

- **FOMC Meeting Minutes:**

  Source: Federal Reserve
  Impact: It's a detailed record of the FOMC's most recent meeting, providing in-depth insights into the economic conditions that influenced their vote on where to set interest rates

- **Fed & Central Bank Speeches:**

  Source: Fed & Central Banks
  Measures: Economic outlook and potential for interest rate decisions
  Impact: Volatility is often experienced during these speeches as traders attempt to decipher interest rate clues.
  Notes: As head of the central banks, which controls short term interest rates, they have more influence over the nation's currency value than any other person. Traders scrutinize these public engagements as they are often used to drop subtle clues regarding future monetary policy

- **Non-Farm Payroll (Unemployment):**

  Source: Department of Labor
  Measures: The number of individuals who filed for unemployment insurance for the first time during the past week
  Impact: If the number is less than expected, it is usually good for the USD
  Notes: This is the nation's earliest economic data. The market impact fluctuates from week to week and there tends to be more focus on the release when traders need to diagnose recent developments, or when the reading is at extremes. Although it's generally viewed as a lagging indicator, the number of unemployed people is an important signal of overall economic health because consumer spending is highly correlated with labor conditions

- **Core CPI:**

  Source: Bureau of Labor Statistics
  Measures: Change in the price of goods and services purchased by consumers, excluding food and energy
  Impact: If the number is less than expected, it is usually good for the USD
  Notes: Food and energy prices account for about a quarter of CPI, but they tend to be very volatile and distort the underlying trend. The FOMC pays the most attention to the Core data and so do traders. Consumer prices account for a majority of overall inflation. Inflation is important to currency valuation because rising prices lead the central bank to raise interest rates out of respect for their inflation containment mandate

- **PPI:**

  Source: Department of Labor
  Measures: Change in the price of finished goods and services sold by producers
  Impact: If the release is better than expected, it is usually bullish for the USD.
  Notes: Tends to have more impact when it's released ahead of the CPI data because the reports are tightly correlated. It's a leading indicator of consumer inflation and when producers charge more for goods and services the higher costs are usually passed on to the consumer.

- **ISM Manufacturing Index:**

  Source: Institute for Supply Management
  Measures: Level of a diffusion index based on surveyed purchasing managers in the manufacturing industry
  Impact: If the release is better than expected, it is usually bullish for the USD.
  Notes: A leading indicator of economic health. Businesses react quickly to market conditions, and their purchasing managers hold the most current and relevant insight into the company's view of the economy. Above 50.0 indicates industry expansion, below indicates contraction.

- **ISM Non-Manufacturing Index:**

  Source: Institute for Supply Management
  Measures: Level of a diffusion index based on surveyed purchasing managers, excluding the manufacturing industry
  Impact: If the release is better than expected, it is usually bullish for the USD.
  Notes: Above 50.0 indicates industry expansion, below indicates contraction. It is a leading indicator of economic health. Businesses react quickly to market conditions, and their purchasing managers hold the most current and relevant insight into the company's view of the economy.

- **Trade Balance:**

  Source: Bureau of Economic Analysis
  Measures: Difference in value between imported and exported goods and services during the reported month
  Impact: If the release is greater than expected, it is usually good for the USD
  Notes: A positive number indicates that more goods and services were exported than imported. Export demand and currency demand are directly linked because foreigners must buy the domestic currency to pay for the nation's exports. Export demand also impacts production and prices at domestic manufacturers

- **Core Durable Goods Orders:**

  Source: Census Bureau
  Measures: Change in the total value of new purchase orders placed with manufacturers for durable goods, excluding transportation items
  Impact: If the release is greater than expected, it is usually good for the USD
  Notes: Orders for aircraft are volatile and can severely distort the underlying trend. The Core data is therefore thought to be a better gauge of purchase order trends. It's a leading indicator of production and rising purchase orders signal that manufacturers will increase activity as they work to fill the orders.

- **Retail Sales:**

  Source: Census Bureau
  Measures: Change in the total value of sales at the retail level
  Impact: If the release is better than expected, it is usually good for the USD.
  Notes: This is the earliest and broadest look at vital consumer spending data. It's the primary gauge of consumer spending, which accounts for a majority of overall economic activity.

- **New Home Sales:**

  Source: Census Bureau
  Measures: Annualized number of new single-family homes that were sold during the previous month
  Impact: If the release is better than expected, it is usually good for the USD
  Notes: While this is monthly data, it's reported in an annualized format. It tends to have more impact when it's released ahead of Existing Home Sales because the reports are tightly correlated. It's a leading indicator of economic health because the sale of a new homes triggers a wide-reaching ripple effect. For example, furniture and appliances are purchased for the home, a mortgage is sold by the financing bank, and brokers are paid to execute the transaction.

TRADER NOTES:

STRATEGIES

"THE TOOL THROUGH WHICH TRADERS
CREATE WEALTH"

STRATEGIES

I. **Suitability**
Time constraints
Realistic commitment
100 New traders

II. **Practical Application**
Perfect strategies
When to size up
Counter trend

III. **Scalping**
Highly active
Inefficiency
Relationship trading

IV. **Relationship Trading**
Fundamentally related
"Lean"
Inverse correlation
Arbitrage
Arb timing

V. **Order Flow & Locals**
Order flow
Locals

VI. **Pivots Points & Support/Resistance**
Entry
Trading with the orders

VII. **Swing Trading Pyramid**
Trend trading
Mental toughness

STRATEGIES

I. SUITABILITY

The very first step you should make is to determine what type of trading is suitable for you. On the broadest level, your first question should be, what amount of time can I commit to trading? Is it a full time job with no distractions? Are you going to just log in twice a week for an hour? Choosing the wrong strategy for your time allowance is usually the first mistake new traders make. Take a trader who just logs in for an hour a day. He can not possibly make money trading a scalping or active trading strategy. He should trade a strategy that allows for a few trades a week and a much longer time frame in trades. Conversely, if a trader is logged in during all market hours then trading a strategy that only yields a couple of trades a week is a bad idea. It is very difficult to watch the market all day and avoid forcing trades. If your strategy is only a few trades a week then watching every tick is unnecessary information and may lead you to make bad decisions.

Now let's look at you. What hours are you realistically able to commit to trading? Can you give your undivided attention or are you doing something else at the same time? Remember, that there are no right or wrong answers, you just have to pick a strategy that suits your schedule. Determine what time you can realistically commit to trading and decide on a strategy that suits your needs.

If you can commit full time, undivided attention to trading, then all strategy are available to you. If you can commit full time, but will have other distractions or work at the same time, then you need to pick a strategy that takes a maximum of a few trades a day. If you can only trade part time, you need a strategy that allows you to enter your orders and walk away. Many traders choose an unsuitable strategy for their time constraints right from the start and end up with guaranteed losses from the beginning.

I am sure you have all heard the statistic that 95% of all people that try trading fail. Let's examine how this occurs so that you know how to avoid becoming a statistic.

Let's look at a sample population of 100 new traders. At least 20 of those traders will choose an unsuitable strategy, given their time constraints. Another 20 of those traders will get the wrong rules of trading and never make progress. Another 30 traders will get the right rules, but will be unable to follow them. That leaves 30 traders that even have a chance of being successful. These 30 traders will spend their entire trading career, be it 6 months or 20 years, trying to avoid pitfalls and stay ahead of the curve. Over time, they will dwindle and, on average, only about 5 will stay in the business for longer than a few years. A few common ways these traders fallout are:

1.) One big loss. It is likely that a portion of these traders will experience a dangerous trade and allow it to wipe out their account. Avoiding the fatal losing trade must always be part of your game plan.
2.) Personal issues that impact their trading. These issues can be circumstantial or psychological. Usually, these traders will close out their accounts due to a challenge they have failed to overcome. Understanding that you will face these types of challenges can better prepare you to manage them, when and if they occur.
3.) Failure to adapt to a changing market. Even great traders can fall prey to this issue. I have seen many traders that have excelled at one strategy, but were unable to move on and adapt to the natural changes in the market.
4.) The grind wears them down and they move on. Trading is an exciting job, but it comes with a serious amount of emotional wear and tear. Some traders have the capability to make profits, but just can't handle the inherent risk in their lifestyle. The preordained societal pressures of not knowing what you are going to make next month can be too much to handle.

II. PRACTICAL APPLICATION

Non-professional traders focus their attention on looking for the one strategy that will make them rich. Professional traders take a look at the possible strategies in front of them, pick one, and go to work.
There are no perfect strategies, but almost all strategies work. So when I ask a friend how a certain strategy was going, he said, "Good enough." This means that while he would certainly like a more full proof strategy, he is making money trading the one he has right now. The key to translating a strategy into a bag full of cash is know when to use it. Take the standard MACD crossover. When a market is trending its great and you will probably clean up. But, during the days when the market is range bound, you will lose money. So, the obvious answer is just common sense. Trade it when the market is trending and don't trade it when its range bound.

The next step is to qualify the good days and learn when to size up. Let's assume that of the 20 trading days in a month, 10 are good and 10 are bad for a given strategy. Experienced traders will break it down even further and determine the quality of those 10 good days. On the best day of the month, the trader may trade 5 or 10 times their normal size to capitalize on the perfect "fit" that momentarily exists, where their strategy is ideal for today's trading.

To simplify, the first question is, "Is my strategy suitable for today?" If it's a NO, then don't trade. If it's a yes, then you must spend the day continually gauging the quality of the day in terms of your strategy. If it's great, then be aggressive. If it's just ok, then be conservative.

Counter trend is an advanced strategy due to the mathematical disadvantages compared to trend trading. Traders trying to capture small reverse moves during a trending day must execute their system perfectly to even have the opportunity to make money.

III. SCALPING

Scalping is a highly active trading strategy. Scalpers may trade over 100 times in a single day. The strategy of scalping is designed to make small profits on a high volume of trades. The advantage to scalping is risk control and an increased ability to "feel" the market. The disadvantage is that it is easy to get too involved in the trading day and lose objectivity. Scalpers may trade with the trend, against the trend, or on choppy days. There are many scalping strategies the traders employ but the best scalpers make their money using one of two types.

The first, is scalping to exploit an inefficiency that exists. These inefficiencies may only last a couple of months or maybe a year, but the more traders that recognize the opportunity, the more efficient the trade becomes.

Here is an example: When bond futures first went on the screen, an opportunity existed to see the price change in the pit, then electronically execute the trade before the bonds moved on the screen. The interesting thing about this opportunity is that it eventually switched the other way when a large number of traders began to do this. The screen started to move first and there was still a chance to execute in the pit before it moved. As with all inefficiencies, they get exploited so much that the go away completely. In this example, the traders in the pit started using handheld screens and the bond market became fully efficient once again.

The basis of stock day trading was created out of an inefficiency. The NASD had a rule known as SOES (small order execution system). SOES orders were designed so that the individual investor could get their order filled at the current inside price without brokerage firms being able to move their bids or offers. The maximum size per SOES trade was 1,000 shares. A firm now known as Daytech started at 50 Broad Street in New York City with 100 traders. These traders were taught how to exploit the SOES rule for the firm's gain. This inefficiency lasted years and stock day traders (also known as SOES Bandits) made millions from it.

The second most popular type of scalping has many names, but the broadest is “relationship trading”. Relationship trading is using one or more product’s price action to trade another. A trader I knew that traded from a desk on the floor had a run of 6 months of trading the bond futures as an inverse relationship to the S&P futures. As the S&P futures rallied, he would hit the bid, or sell at the bid price, in bonds. Generally speaking, the bonds would then head lower. He made millions in only a 6 month window. The lesson he taught me from those 6 months was that when you have a scalping strategy that is working well…..size up, because they never last forever.

Now, that’s not to say that your relationship trade will always disappear completely, but you will definitely have to evolve and adapt your strategy to keep it working. During those 6 months, my friend said that he thought he was the best trader in the world, and when it came to an end, he thought he couldn’t make money anymore. A good lesson from this is that it is always important to keep things in perspective. In hind sight, you can look back and see the situation for what it was, but in the present, sometimes it is hard to decipher what is really happening.

Relationship scalps can come in many different varieties. They may be triangulating a series of products to get a one second head start on the product you are trading. They may be something as simple as buying EUR/USD every time GBP/USD rallies on a strong day. The relationships may reverse at times or even end up leading into a new relationship that you discover.

A great FOREX relationship example is the USD/JPY and S&P. Although the relationship is not perfect all the time, when it’s on, it is very highly correlated. Many FOREX traders took advantage of this relationship early in 2007 and cleaned up. On a personal level, I have had most of my successful trading experience in scalping and trend trading.

IV. RELATIONSHIP TRADING

If your schedule allows you to be a full time trader, then I recommend exploring relationship trading. Relationship trading is finding a correlation between two or more products and using that information to execute trades. The first step is finding the correlation. Fundamentally, there are products that relate to each other. Take the USD as an example. EUR/USD, GBP/USD, and USD/JPY do not trade mutually exclusive of each other. There is always a relationship between the way they move. If EUR/USD is in the news and the driving force in the FX markets, you would use a rally in EUR/USD to look for a good place to buy GBP/USD or sell USD/JPY. When EUR/USD stops going higher, then you stop looking to buy GBP/USD or sell USD/JPY.

Many traders will use relationship trading in FOREX. The fact that all FOREX products trade in pairs, allows you to reverse engineer the strength or weakness of a single currency. Let’s look at the US Dollar. If the EUR/USD is rallying, we know that either the Euro is strong or the Dollar is weak. By looking to other pairs that include the Euro or Dollar, we can decipher which individual currency is causing the move.

Relationships may change on a daily basis. Recognizing these changes and making adjustments are the key to a successful relationship strategy. When correlations are perfectly in line it can be difficult to gain an edge, but if all the inter-related products that you are trading are going up, then using one or more of them to act as a trigger, or catalyst, is the best way to capture the moves.

Remember that relationships change on a daily basis. You may have an opportunity where one product leads the move for another product over the course of a few days. In this scenario, you need to take advantage of this information and use it to make money. But, when that relationship changes, you need to reevaluate and make the necessary adjustments to react to the changing market. The more you trade the same relationship, the more you will gain the insight and experience to make consistent money trading it. As the relationship adjusts, so you must adjust your trading. Just because the “perfect” relationship you were trading has changed, you should not feel frustrated as this is just part of the game, and it is up to you now to define the state of the current relationship.

The best way to gauge a relationship is to watch it full time. If this is not possible, then you need to set time parameters to quantify the correlation. For example, if you write down the net change on the products you are watching for every 15 minute interval, you will be able to see exactly how the relationship exists.

One of the best parts about a relationship trade is the confidence you gain on entry and exit. There is one product that you are trading and the other product(s) are the "lean". A lean is your basis for the trade and as that lean changes, it is usually easy for traders to comfortably exit. If you are long 10 YR notes because Bonds just made a new high and 10 Yrs haven't followed yet, then if the Bonds sell off, you know to exit your long 10 Yr position. Over the years, I have found that relationship traders seem to be the most consistent and confident. It is because you have a basis for your trades and even when they don't go your way, you still believe in the relationship as it is fundamentally based.

Relationships can be directly or inversely correlated. A direct correlation is a fundamental reason why two or more products generally move in the same direction. An inverse correlation is a fundamental reason why two or more products generally move in the opposite direction. Both are equally as good and worth exploring.

Bonds and Stocks are fundamentally inversely correlated. As investors sell stocks, there is usually a flight to quality and they buy bonds. The reverse is also true. As investors buy stocks, they are usually liquidating their bonds. This inverse relationship exists more times than not and can be traded on an ongoing basis. It is also important to understand that there are days when the relationship does not appear to exist. It is realistic to assume that there may be days that bonds and stocks both go up. These days are the times when you know to lay off of your strategy and just observe.

Remember that no trading strategy works perfectly everyday and the difference between a winning trader and a losing trader is knowing when to mobilize their strategies.

You should add some sort of a qualifying value to your relationship. Maybe a perfectly correlated day is a 10 and a non correlated day a 1. Your system should then have a basis for trading your strategy if your predetermined correlation is a 7 or higher. It is also important to make sure that you are using the same time interval to gauge correlation as you are to trading the relationship. If you determine that the overall correlation over the past 2 months is an 8, then that doesn't necessarily translate into an intraday strategy. If you trade an intraday strategy it is nice to know that the correlation has been high over the last 2 months, but you also need to determine the quality of the correlation for today's trading day.

Leader vs. laggard: Usually, the relationship will float back and forth as to which product is the leader and which is the laggard. Just because one product was the leader yesterday, doesn't mean that they will be the leader today. Sometimes, the best play is that if the laggard goes first and you still have a chance to get in on the leader. Remember that the leader is the leader for a fundamental reason. People are buying it aggressively and the laggard may just be along for the ride.

A third strategy that can be considered scalping is worth mentioning.
Arbitrage: Arbitrage exists when there is an inefficiency between to fungible products. As an example, when the S&P E-mini's started trading at the Merc (Chicago Mercantile Exchange), there were times that the pit was moving so fast that there was not enough order flow in the E-mini's to keep the price in parity, which is statistically where it should be. During these times, traders would buy the E-mini's and sell the Pit S&P's to perfectly offset their position for an immediate profit. Arbitrage opportunities occur rarely these days and are generally exploited by large hedge funds or institutions. And even if they do exist, it is unlikely that you will be able to put your plan into action for long enough to make a reasonable amount of money. I recommend that you ignore any arbitrage opportunities that you may see unless you have a unique advantage that the general public does not.

An advanced trading strategy using the basis of arbitrage is call arb timing. Arb timing is taking two or more products that are related and instead of putting them on at the same time, a trader will time the entry of each side of the trade. The trader may put the long side on just as the products start to turn higher and after a move to the upside, then put the short side on. The real question for all arb timers is to determine if it is worth it to put the sell side on or just close out the already open long position for profit. This is definitely an advanced strategy and is usually only executed for profit by an experienced and active trader.

V. ORDER FLOW & LOCALS

Order flow is an important part of all markets. All big moves and general trends are created by order flow. On the floor, all orders are divided into two sections. Paper and locals. The screen is no different, it is just harder to disseminate which is which.

Paper is order flow. It is the accumulation of all orders that enter a market, excluding traders. An example of order flow is, if Goldman Sachs sends in an order to buy 1,000 bond futures.

The locals make up the inside spread and allow for the best prices to be created. Locals are usually intraday traders that add liquidity to the market and tighten spreads. Order flow is the market moving orders that the locals try to follow. Both order flow and locals serve important purposes in the trading arena. Without order flow, the locals would just trade the same contracts back and forth in a game of hot potato. Without locals, the spreads would be wider and liquidity lower, making it difficult for order flow to get filled at decent prices.

As a pit trader, before the advent of the side by side screen, it was easy to see order flow because you knew which traders filled orders and what firms they filled them for. When these orders would come into the pit, every local would take a position in the direction of the order flow and ride the wave. On the screen it is less transparent, but still evident. As larger orders come into the market, or you see someone sitting on the bid buying everything, you know that these are part of the order flow. As small to medium lots trade back and forth at and between the bid and the ask, you know that these are locals.

How to use order flow and locals as a trading tool:

The 2 best ways to help your trading using these tools are:

1.) Watch for order flow to continue to come into the market on the same side and take a position with it.
2.) Watch for locals to get over anxious and take an opposing position.

Let's take a look at each of these a little closer.

How do you recognize order flow? Order flow can come in two types, passive and aggressive. Passive order flow waits for sellers to come into the market and then quietly sits on the bid and buys everything the market throws at it. The idea here is that the company sending the order wants to fill it at the best price possible without spooking the market higher. Aggressive order flow wipes out offers and runs the price up.
A third type of order flow that is in between passive and aggressive is the sniper. An institutional trader that needs to buy a large amount may sit on the sidelines and wait for any sizeable offer to come in. They will then buy it for the exact amount it shows. This way, there is no real impact on market direction, but the order flow is still getting their contracts.

Locals are best described as fickle and active. If a market makes new highs and the locals ran the price through the high of the day, they are looking for order flow or more locals to jump in behind them and continue the move. If no new orders or locals show up immediately, you know that those locals are long and need to find a way to get out. These are great opportunities for scalpers to take a quick short and play on the local's unwanted position. Another example is: If all day long the locals have been trying to push the price higher, but orders keep coming in to hold it. However, no aggressive sell orders are coming in to push it lower. As time goes on, more and more locals end up with long positions. At some point too many locals are long and there are no buy orders for them to lean on. As a trader, you know that as soon as a few locals start to bail, a snowball effect will begin and they will drive the price lower. The morale of the story is that if too many locals are long (and nervous) it's a good time to get short.

VI. PIVOTS POINTS AND SUPPORT/RESISTANCE

Unless you are a consistently successful trader, you should not use pivot points or support and resistance for entry. There are many profitable traders who use this strategy, but it is mathematically difficult to profit from and therefore should be avoided by new traders. The analogy used on the floor is “catching a falling knife”. The reason this colloquialism is used is to describe this is the fact that everyone and their mother are selling and you are deciding to pick a price where the sellers turn into buyers. Statistically, this is not an optimal situation.

As a new trader, you will need all the advantages you can possibly get to help you make money. And that includes being on the side WITH the orders. The only exclusion I would make for this type of strategy is that if you are trading in a choppy market that is channeling, then using some form of pivot points or support and resistance can be useful in helping pick entry prices. The easy rule to remember is that if a product is making consecutive new highs or lows, and you have not consistently made money for over a year, then stay in the direction of the move.

Just after I left the floor, a trader once told me that he saw me trade 10 YR notes on the screen long and short over and over during a day. He said, “Why did you take any shorts, it was going straight up all day”. My answer was that on the floor I took longs and shorts everyday no matter what. And he said, “Well, now you don’t have to any more.” That little tip drastically improved my trading transition from the floor to the screen.

Bottom line: Do NOT use pivot points or support and resistance to enter trades, until you are successful enough to venture out on your own.

VII. SWING TRADING PYRAMID

Swing trading using the pyramid technique:

The common approach to active trend trading is to buy when prices are going up and sell when they start to run out of steam. A great mathematical addition to this strategy is pyramiding. Let's assume that the product you are trading is making consecutive new highs today. You buy on dips and continue to add to your long position, instead of closing them out. As the larger trend begins to reach exhaustion, you close out all of your long positions. This strategy has the ideal mathematical setup. Your losers are always on small size and your winners on large size.

However, the mental toughness it takes to trade this strategy is unmatched. First, you can go many days without hitting the home run and the string of losses can wear you down. Second, you will start to question your trades and think about taking a winner on small size just to make yourself feel better. Third, at the end of the trend the amount of money you will give back from your high point will be large. While this strategy is ideal in terms of probability, it takes the right kind of psychological makeup to execute it properly over time.

To summarize, always choose a strategy that suits your time constraints, make sure that the math of your strategy makes sense, and learn when to be aggressive and conservative in employing your strategy. It is just as important to know when to sit on your hands as it is to know when to trade.

TRADER NOTES:

TREND TRADING

"BET ON THE HORSE THAT IS ALREADY WINNING THE RACE"

TREND TRADING

TREND TRADING

I. BASICS OF TREND TRADING

The following explanation of trend trading is suitable for all traders and will be most helpful to those full time traders who have the ability to commit a reasonable amount of time and energy to succeed in trading.

The basics of trend trading are simple. If the currency pair is directional, stay with the momentum. Trading with the trend and knowing when to stay on the sidelines are important concepts for all traders to master. Most traders can objectively make good trading calls when not too emotionally or financially involved in the trade.

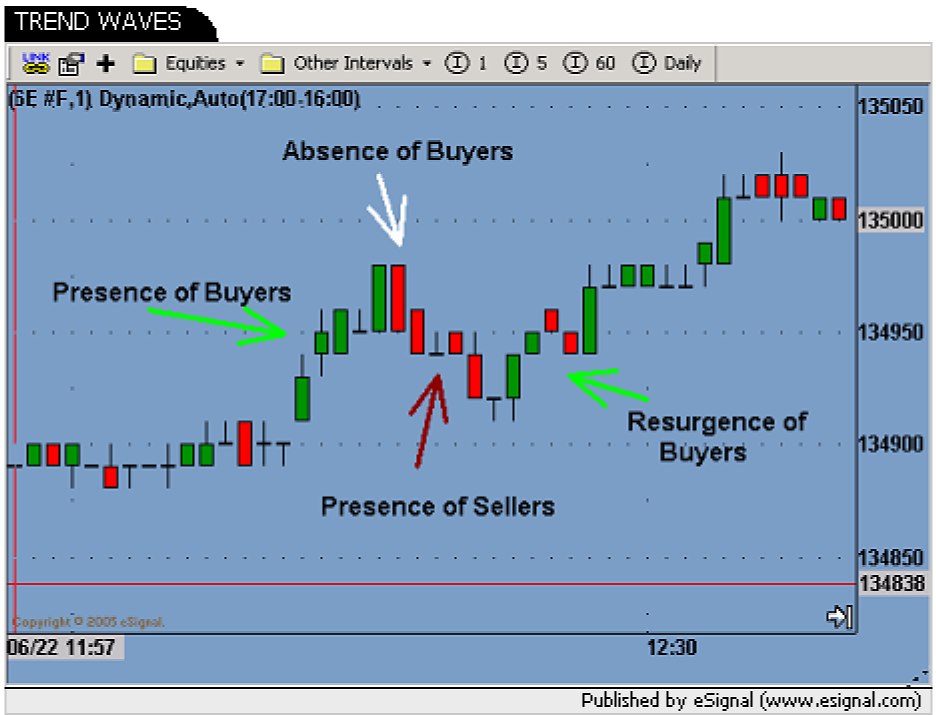
The foundation of trend trading is built on math and economics.

Mathematically placing the odds slightly in your favor is the advantage over a counter trend strategy. The economics of trend trading entry are simple: Enter the market on the side of the dominant force, either supply or demand.

For example, if the EUR/USD is rallying to new 52 week highs, use your ancillary factors to help you choose an entry point and try to hang on for the ride. One of the best parts about trend trading for the novice trader is the potential for the continued institutional order flow to help move the pair in your direction… even if you have an unattractive price.

Trend trading can be done across many different time frames and is suitable for both short and long term trading. Before you begin trend trading, set ground rules for yourself that suit your personal time constraints.

Entry and Exit: In terms of an over-demanded market (rally), look for dips as a first indication for entry. During an up move, the economics are represented in the following illustration (SEE CHART "TREND WAVES").



As you can see, the ideal entry point is the beginning of the resurgence of buyers. Remember to avoid buying new highs and focus on getting into the position as the turn occurs. However, during periods of extreme volatility, buying highs may be the only price you can get.

It is important to remember that trend trading is an inconsistent methodology, and therefore should be traded in an inconsistent manner. For example, compare the best and the worst day of the month. On the best day of the month, you should have traded with more frequency and on the worst day very little, or none. Most trading strategies do not work well everyday. You must be able to evaluate the quality of the current day, and trade accordingly. Very slow, non-trending days are easy to spot, and with the right amount of discipline, you should be able to stay on the sidelines. Great trending days are also easy to spot, and over time your ability to get in and get out at the right times will provide you with profitable returns. The difficult days occur when volatility and trend are a difficult read. If you are unsure if a trend is present or developing, be cautious, these are the days that cost good traders money.

Here is an example of an exact trade. It may be challenging to follow without a chart, but that is the point of this exercise. You must be able to build the model of moving parts in your head, without having to see it on a chart.

> The European session was a perfect uptrend in the EURO across all majors. Volume indicators signaled that international banks had begun buying the EUR/JPY. Volume in the cross pairs confirmed the signal. Based on a risk comparison, the best ancillary play was to buy the EUR/USD. The USD/JPY rallied a little, giving us a chance for a good price in the EUR/USD. We now knew that all the stars had aligned, and that we were in the driver's seat for a probable move. There were no driving economic forces or large institutional orders directed at the USD that we needed to be concerned with. The EUR/USD spiked up as a follow through to the aforementioned factors. 30 Minutes into the trade, volume began to slow in the EUR/JPY, and we sold our long position in the EUR/USD for a profit.

II. EVALUATION

The basis for trend trading is never to predict the market, but simply stay on the side of order flow. Many traders make the mistake of expecting to predict a move. This is a fatal flaw shared by many at home traders and can be easily corrected. Remember that your job is not to predict a move before it happens, therefore, you should never feel clairvoyant when a trade goes your way. And likewise, you should never get down on yourself for taking a loser. Winners and losers are both just part of the game.
After trade exit, do not examine your trade as a win or a loss. Examine the following questions:

> 1.) Did I show good judgment and execute properly on trade entry?
> 2.) During the trade?
> 3.) On trade exit?

Sometimes you will have the right trade on at the wrong time. You can not beat yourself up over a trade because of what you know NOW. No trader can be expected to know the future, hence, why would you be upset that you got out only because it went up after your exit? What if it went down, would you still be upset at yourself?

Traders can only make the best decision based on the information that is available at that exact moment in time.

I highly recommend the novice trader to explore the possibilities of trend trading. There are so many advantages that facilitate managing risk and maximizing profits.

Regardless or what trading style you may choose, here are some important things to remember:

- Never get upset at the market and never make excuses for your losers
- Trading is a serious job, not to be entered into for thrill seeking alone
- If a trade does not meet your criteria, do not trade it. If it meets your criteria, you do not have to trade it, but it is available.
- If it is not a strong day for the strategy, the best advice is to stay on the sidelines
- Always think in terms of probability, math, and common sense
- Remember that money management always takes precedence over your strategy or indicators
- Always have a finite amount of risk
- Doing nothing on slow days is just as important as being active on busy days

III. POINTS TO REMEMBER

You must maintain the highest level of focus and discipline. Remain connected to the market at all times that you may enter orders. Here are the three most common flaws that cause traders to fail:

1.) The strategy does not have a positive mathematical outcome.
2.) Never add to a losing position. This is an investment strategy and not suitable for active traders. By adding to losing positions, you are trading a strategy that requires an extremely high win ratio, that may be insurmountable
3.) Do not disconnect during a trade. If you enter a position, place your stop and target orders, do not kick back and read paper. Watch the trade closely and make adjustments as needed. You will never gain the trader's "feel" by disconnecting.

Becoming a successful trader is a challenging course. Avoid common pitfalls and choose strategies that help you more than hurt you. Keep a journal of your trades and thoughts. Be ready and aware everyday, and outwork the competition. And remember what successful traders have been saying for years, "The trend is your friend"

TIPS:

- First learn to actively participate in the market without losing money. Then, use your fiscal game plan to achieve monthly profits.
- Gain experience by becoming familiar with the way the market moves and using the trend style of trading.
- Keep it simple. Use common sense to make sound judgment calls and don't overcomplicate it.
- Use math to keep the odds and probability on your side. Position yourself as the house, not the gambler.
- Avoid taking big losses. Determine your max loss before you enter and stick to it.
- Only trade if there is a clear and present trend.
- Don't try to predict the future, just identify the present state of the market and stay on the winning side.
- For trade entry, buy on dips and sell on bounces.
- Use caution when in a trade during an economic release. New information for the market to disseminate can drastically alter the trend.
- Assess the risk of a trade by using recent lows and highs.
- Assess the reward of the trade by watching average ranges and current volatility.
- During a trade, watch all currency pairs that could have an impact on your position. An early tip off in an ancillary pair can save you money.
- Always know why you entered the trade and ensure that you only stay in as long as that logic holds true. Do not rationalize new logic to stay in a trade, or you are simply relying on luck.
- Upon entry, immediately place a stop loss order. This is your insurance policy in case the trade turns against you quickly.
- Piecing out on winners is a good strategy for managing profits in trend trading.
- Never let good winners turn into losers. Always move your stop up as the trade improves.
- Don't force trades. If the day is not ideal for trend trading, you must have the discipline to stay on the sidelines.

TRADER NOTES:

STORIES OF THE PROS

“WAR, PEACE, AND THE GLORY DAYS OF TRADING”

STORIES OF THE PROS

STORIES OF THE PROS

Most professional traders, and especially floor traders, have interesting stories about their climb to success. The following are a few of mine.

I. DOW PIT

When I first started trading in the Dow futures pit in 1998, I was 22 and had no idea what I was doing. I had previously been filling spread orders on the floor of The Chicago Board of Trade between Kansas City and Chicago Wheat for a large clearing firm. And while this job was very intense, fast paced, and difficult, it lacked the one thing I realized the first day I stepped in the Dow pit. I never had to decide on market direction.

My game plan in the Dow was loose at best. I had the right idea, which was to go in, manage risk well, and get a feel and learn about how the pit moved. But I had no real game plan for trading. So, I fell into the trap that so many new traders do, I just continually guessed a direction. This, of course, lead to nothing but losses. However, I somehow managed to stay about even during my 9 month run there.

Here are my points from this lesson: You don't have to be a rock star your first day. Trading can have a long learning curve. Some people have a better propensity to trade than others.

While I certainly could never be on American Idol and I couldn't find my way out of a forest if my life depended due to my subpar sense of direction, and I will never be inclined to be Mr. fix it at home…. But I am built to trade. With no training on trading and a horrible strategy, I still didn't lose money. That's not to say I am good at managing my personal money…. I've been known to spend thousands on a single night out back in my twenties, it's just that I can pull the trigger on losses, keep from overtrading, and take enough out of my winners.

Some traders I have trained are the exact opposite. And unfortunately, these traders have the cards stacked against them, just as I would if I entered American Idol. The good news is that with enough effort, you can fix your issues in trading, but all the singing coaches in the world couldn't get me on MTV.

If you are not instinctually built for trading, you need to recognize this early and work through it. Its not one thing that you need, to have a traders mindset, its many little ways of thinking that all work together. For example, if I take a small winner, and it goes much further after I get out, I rarely ever have the thought, "what if I stayed in". I also never feel like the market is out to get me. If anything, I've always felt like I am in the market's arena and it my job to play the game and keep coming back. I have never hesitated, even for a split second when making a call to take a trade and I am very comfortable while in my trades. These positives and others were coupled with my own demons that I had to work through over time, but the bulk of the important trading skills were already in place for me from the beginning.

When your first trade is a winner…. Brian and I both started as locals in the Dow futures pit in September 1998. The pit had been around for less than a year and it was a good place to learn without risking too much money. We both had about 9 months experience as floor clerks and thought we were ready to test our worth as traders.

The first day we got into the pit was a Friday. I made 2 trades and was -$50. Brian made about 50 trades and was up $4,000. He thought he was on fire and couldn't lose. Neither one of us had a strategy or even some semblance of a game plan, but that didn't stop him from coming out firing. That was a great weekend as Brian spent his entire $4,000 in profits on our Chicago bar escapades. It was a good time.

Come Monday, Brian started buying the Dow and the price was tanking. He just kept on buying more as it went down. When he was down about $7,000, I said, "hey man, you alright?" He looked at me like a deer in headlights and said, "I don't know". I grabbed him and pulled him out of the pit. His hands were shaking and he couldn't figure out how many

contracts he was long. I took his cards and did the quick math. We picked a final out price that he would hit no matter what and we went back in. He worked out of his full position and ended -$9,000 on the day.
The morale of the story is that just because you have a good day, or week, or month, it does not mean that this will always be the case. Brian lasted about a month in the Dow pit and left to take a job as a trader's assistant in the grain room. Brian went on to be a great trader and still trades and manages a trading group in New York. Sometimes having a tougher start can mentally prepare you better for the upcoming future.

While I'm on the topic of Brian, I have to tell another story. The assistant trading job he took was with a trader named Bob. Bob offered Brian the job with plans to teach him an options strategy and get him back in the pit. Sure enough, Brian was eventually back trading Dow options in the pit right next to the Dow futures pit. At that same time, I was trading NASDAQ upstairs. I was having the best trading run of my life, up to that point, and paged Brian on the floor. Bob answered his page and told me that Brian no longer worked for him. I called Brian right away on his cell phone and he answered in a depressing tone. I asked him what happened, and he said he lost $150K in one day and Bob fired him. I said, "So what the hell have you been doing for a week?" He said he spent the week curled up in the fetal position on his bed. I said, listen get yourself cleaned up and come to my office. There was a prop group trading out of the same office I was in and I got Brian a job there trading NASDAQ. Within a month Brian was back on the money train and had forgotten all about his $150K debacle.

II. BOND PIT

When I first went into the Bond futures pit at the CBOT, I was 24 years old and there was only one other trader in there under 30, and he was 28. I was 2 years into my trading career and at the CBOT and the bond pit was the biggest and best. 400-500 traders crammed in yelling and screaming, throwing around millions. What could be better? I have to admit, my first few days were intimidating, but I had the confidence that I belonged there because all I had heard for that last 2 years is that "this kid is a prodigy". I was quickly humbled by the best.

The bond pit traded fast and hard and it didn't matter if you were bidding or not, you got contracts sold to you, so you always had to be ready. Let me explain, if the bond futures have a bid price of 2 and an ask price of 3, we would call it 2,3. Meaning 2 bid, at 3. So, if you were a local and trading for your own account and it was 2,3 in the pit, that means even if your eyes are closed, you have to be willing to buy bonds at 2 and sell them at 3. This may sound crazy and traders outside the pits would say, why would you let anyone else give you positions all day long. But, there are 2 answers to that. The first is pit traders edge. The basis for making money as a pit trader is to always buy bonds at 2 if its 2 bid, then try to sell them at 3. If you can't sell them at 3 and new sellers come in, you just sell them at 2 and scratch the trade. The second reason is that if a trader senior to you, which was all of them to me, pushed a trade into me and I didn't take it, he would never trade with me again. The first couple months, I felt like I never picked a trade and I was just managing all the contracts that kept getting pushed into me. It was very different from the Dow pit where I sat back and decided when I wanted to go long or short.

The Bond pit traded in "zip codes". These were sections divided by padded railings. Each trader picked a zip code to try to become a part of. If you were new, like me, you had to earn your right to even stand within the railings of a zip code. The zip code had 6 levels, and each was a step higher than the next. Level 1 was the hallway of the pit, next to the zip code where spreaders and new traders stood. Level 2 was the small broker level where a few brokers filled smaller size orders. Level 3 was the small local's level.

Level 4 was the medium local's level. Level 5 was the large local's level. And Level 6 was the huge brokers and huge local's level.

The lowest level was more like the general hallway for the whole pit and it was for spreaders and new traders vying for a spot in the zip code they were standing next to, which was me. The key to gaining respect in the pit was to not kiss ass or try to make friends with the traders. The key was to trade clean with them and bring contracts into the zip code. I was a very fast and clean trader, and I never made small talk. A side note to this is that I generally find small talk to be useless and unbearable to begin with, so this was easy for me.

I would only get trades from the spreaders and only because they needed to hedge fast and I was the first guy standing behind them. I would take those contracts and trade them with the traders in the zip code behind me. Getting trades was the key for all traders in the bond pit so if someone was brining new contracts into our "family" then they were building respect.

No one in the zip code had given me any indication that it was ok to stand on the second level (small broker level), so after a couple of months, I decided I had paid my dues and I was going to force my way in. I figured they would respect that move given the amount of time I had already put in. And I was right, I squeezed my way in, with my body turned sideways and nobody kicked me out. It was a good start.

After a few months on the small broker level, I wanted to move up to the small local's levels (3rd level) and I pulled the same move… and again it worked. The next leap up was a big one and I did not expect to make it for a while. On the small local level, we all had less than 5 years experience in the bond pit (or less than 6 months for me). The medium size local step was all traders with 10+ years experience and they all traded much larger than us. On my level, we were all about equal…. Or at least I thought we were, but on the medium local level, there was a pecking order. Charles was the alpha lion and patriarch of our zip code, and he traded up to 100 bonds at a time. The other guys on the level ranged from 10-50 bonds at a time. When a trader from another zip code would come try to squeeze in, Charles was the one that either pushed one of us into him, which then pushed the trader out of our zip code (kind of like using us as a weapon to repel the traders attack). Or if the trader was a senior trader and tried to come up to a higher level, Charles would just bump him off like he wasn't even paying attention, then

stand where he couldn't get back up. No one ever said "get out of our zip code" or "you've earned a promotion to move up a step". It just happened, and if you blinked, you missed it.
I had been in the Bond pit for about a year. One afternoon it was slow and the pit was thinner, meaning fewer traders than usual. And there was an open space on the medium local's level. Now, I had already decided that everyone had 5 years experience on my level and I figured I was a long way off from moving up a step. But, I felt Charles huge hand grab my shoulder and drag me up next to him on the medium local's level. He never said a word and never looked at me when he did it. It was just the unsaid rule of the wild. From that point on, I was allowed to stand on the medium locals level when there was room, but if someone came back from lunch, I always stepped down to let them take back their rightful spot in the pack. I should note that the other locals on my small local step had already previously earned this right before I started in the bond pit and could move up to a spot anytime it was open.

Let's talk about Charles. I am sure you have a different vision than what I am going to explain. Charles was about 6 foot, 280 pounds of all fat with a round red face and many broken blood vessels from all the decades of binge drinking he had endured. I am fairly certain that his shower rarely had the pleasure of his company and he would regularly shout random obscenities at no one, in between his trades. These obscenities, although highly offensive, were creative and helped break some of the tension at times.

Just as I was making my way up the ranks of the Bond pit, EUREX came in and announced that they were going to create an online product to compete with the CBOT bond futures. We all knew that EUREX had already shut down the LIFFE in London and MATIF in Paris by doing the same thing. The CBOT and Chairman at the time chose to setup a strategic partnership with EUREX where the online bonds would be offered by both EUREX and CBOT. This was a good move for our Exchange, but the writing was on the wall for us floor traders either way.

In the next few months, the online bonds were a more efficient way for the public and institutions to execute orders and our lifeline of paper orders was drying up. I watched the pit thin almost daily, but really started pondering my future when I saw big locals "retiring".

My ability to make money had certainly decreased and from the mood in the pit, I don't think I was the only one. One day, Tom, a trader from the large locals level and I were the only 2 locals in our zip code on a slow day and he was someone I had never talked to before. He said to me, "What are you doing here? You're too smart to stay in here and die with the rest of us. Go trade on a computer, it's the way it's all going." Now, at that time in Chicago, becoming a screen trader from a pit trader was like going from owning a car dealership to washing the wheels. No one had any respect for being a screen trader and I was even offended when Tom first said it to me. But, after a few days of processing that information, I had decided on a few options. Now that the bond pit was falling apart, I could switch to the S&P Pit at the Merc, or….. Move to the screen.

I moved to Chicago to be a pit trader, its all I wanted to do for the next 20 years, I loved going to work everyday, I hated the idea of telling people in Chicago that I was trading "upstairs"…. But I had to make a rational decision. Switching to the Merc meant all new traders and a new hierarchy, in a pit that would probably be next to go computerized. I had to think of my future and move to the screen, and that's exactly what I did.

When I put the word around the floor that I was going to leave the pit, I had a few offers. There were a few veteran pit traders who saw the future coming and wanted to start screen trading groups. The offer I accepted was with Kingstree Trading and Charles McElveen. Chuck had an office up in Evanston for the 10 of us, and we moved in one weekend. When I say moved into, I mean literally rented a van, moved all the equipment, and set it up. He said we were in Evanston because he was sharing an office with a friend of his who had a trading software startup called Trading Technologies. At that time, only about 20 people in the world had heard of TT, which now as I'm sure you all know is the leading futures trading software worldwide and Kingstree went on to become one of the leading proprietary screen trading firms in Chicago.

Since I've left the floor, I have trained over 300 traders in my offices in Chicago, New York, and Charlotte. Over the years, I have come across many different personalities and skill sets. Here a few samples:

III. INSTINCTUAL VS CIRCUMSTANTIAL

Let’s take a trader that worked for me for 3 years, Gary. First, let me say that he made money all three years but made far less than many others in his same class, and only because we all kept him together. Gary could regularly be heard complaining about how some mysterious big trader kept screwing him out of his trades. He would get out of a trade go to lunch, look at where the trade was when he came back and freak out about how much money he would have had if he had held it. Gary averaged about a 5 min holding time per trade, but for some reason he believed that in this exact trade, he would have held it for an hour. He loved to blamed the software, internet connection, other traders around him, and anything thing else he could think of. Gary fought the market and fought trading for the entire 3 years.

Let’s take another example, David. David learned the trading model and our strategy like it was simple math. He always seemed composed and comfortable even when things weren’t going his way. If he lost money, his explanation was always that he recognized something he did wrong and that he needed to change. He never hesitated in taking trades and never needed anyone else to reinforce his beliefs, even from the beginning. It took David a few months to start making money, but he lost very little during his learning curve because he could manage risk and “play” with the market, instead of “fighting” with the market. David and Gary were in the same class and David has been trading successfully for over 5 years.

Now let’s look at an underdog example. Garrett was in the class following Gary and David and was the slowest starter of his peers. It just seemed to take a long time for our methodology and trading style to make sense to him. He appeared to be confused and unable to know what to really do. After a few months, Garrett was in last place in his class and mentally struggling. I made a decision to hold Garrett back and required him to participate in the next class as well. In a room where egos rule, I am sure this was not a fun experience. However, Garrett turned his anger into dedication and simply outworked everyone around him. While he was very smart, he was not instinctually suited to be a trader. However, he went on to become the best trader in both of his classes. Garrett is a good example of individuals who have an uphill battle to become successful traders. While they may find

themselves with internal conflict in the beginning, it is possible to make it to the end.
Conversely, there have been other traders I have trained throughout the years that were instinctually gifted, but as soon as things got tough, they lacked the determination and work effort to see it through. Unfortunately, these traders are unused talent and all their gifts go to waste, and when I look at David's career, he has had plenty of tough times, but he still never misses an opportunity to be in his seat and work through it.

Will was instinctually gifted, but his rare momentary lapses in judgment proved fatal. Will was a great trader for a volatile market, but couldn't find enough to do when it was slow. So, he would start putting positions on out of boredom. Eventually, he would find himself in a huge position of a trade he didn't even want. Some of these blunders proved to be costly. Will could make more money on the busy days than the traders around him, but would lose it all over the next few days on a couple bad trades. His individual losses could equate to one or two good months of trading. In the end, one of the big losses got to him and he couldn't mentally recover.

Jeff has been the most unique and peculiar trader I have trained. He is a very smart, quiet guy who rarely gets involved with other traders. In fact, he now trades out of his house and is on instant messenger with us all day. Jeff manages risk better than anyone I have ever seen in the business. He has not had 1 negative month since I started training him in March 2003. He trades like a sniper and chooses his trades very carefully. It is interesting to note that his style strongly contradicts the conventional trader. Jeff is the one person who trades like an analyst would, but actually makes money. But good luck getting any insight from him, his mind is a vault.

I can't even remember this guy's name, but let's call him the Porsche Guy, or PG for short. PG sat next to me in New York in 2002. He was very twitchy and nervous (more so than the usual trader) and he always had a huge dip of chewing tobacco in. Apparently, in 1999-2000, PG made millions trading NASDAQ. He told me about a run that he had where he made over $150K/day for 10 days straight. The guy that trained him, Alex, told me the story of his blow up.

Alex said that he was sitting next to PG when PG formed a strong opinion about stocks going up. He just kept buying in the face of clear selling. He lost $1 Million that day. It would appear that this loss was catalyst that sent him into a tailspin. Everyday after that he came in and would only buy. This was a run of over two weeks of selling after the internet bubble burst. PG lost everything he had made and when he was sitting next to me, he had the $30K in his trading account and was living out of the Porsche he bought when he was rich. PG is an example of someone who appeared to have it all figured out, then he let one day get to him and crumbled the empire he spent years building.

Tommy was the biggest risk taker I ever sat next to. His swings were so big, it made me nervous. Especially considering the amount of total money he had. His liquid assets were $8 Million, yet he would put such big size on that a single tick would be a $150K move in his account. I always felt like I was about to throw up watching his screen and knowing he could lose everything in one quick move. But that's just the way he traded. He traded from 1998-2002 and closed his trading account after a series of losses that left him with liquid assets of $5 Million. Tommy is an interesting story because a successful trader of 4+ years has a tough time cutting the cord and accepting that it's not working anymore. The last I heard of Tommy he was touring the Greek Isles and living the life. Good for him, there are far too many stories of successful traders that won't stop until they have lost everything.

IV. DEMONS & TIME OFF

My demons over the years have generally been market specific or personal. For example, trading the NASDAQ offered so many opportunities that I became an overtrader and had to find a way to get it under control. Or when I was 23 and making money, I partied all the time and didn't make a fraction of what I could have made if I would have been more focused. Or when I had 60 full time employee traders all in the same room, the distraction and administrative work hurt my trading immensely. Now, that's not to say that when I have had 10 traders in the room it hasn't helped immensely, it has. It's just that at 60 traders, there was too much going on and I let my personal focus stray. There was even a year where I got addicted to technical analysis and my trading was constantly going in 10 different directions. Fortunately for me, these problems were all fixable and I was able to work through them… after I recognized that they were there and hurting my trading. These demons are what I would call circumstantial and much easier to fix than those that I call instinctual.

I even took nine months off trading one time. I never thought I would, but I had just spent the better part of a year breaking even. I had also started a few other businesses outside of trading and had four professional trading groups. I felt like at that time, I was too concerned about everything else I had going on and my trading was suffering, and what's worse than that, for the first time in my life, I wasn't enjoying trading. It was a difficult crossroad when my whole career has been as a trader. But, I decided I better take some time off and get my non-trading businesses organized. The first few months after I stopped, I was shocked, it was a relief, it was like a huge weight lifted off my shoulders. For the first time in my adult life, I wasn't required to keep my edge everyday, all day. I took my wife and kid to Europe for a few months and just enjoyed life. By about six months being out of trading, I was feeling the itch to get back at it and at nine months out I started up again. Before this, I never suggested traders to take time off of trading, I only told them to keep going to the office and work through it. But, I can't tell you what a huge benefit I gained from the break. When I started trading again, everything seemed so clear and easy to me. I guess I just had so many years of trading baggage stored up, that I needed a clean slate.

Although I could tell war stories for a year straight, I think I'll stop here. I hope you found these stories interesting and helpful.

TRADER NOTES: