

# From 1st Class to Park Bench

By Tom Hougaard

This is an article about failure – about a multi-million-dollar pattern – and about the inconvenient truth about trading. It is written in the summer of 2020 – during a trying time in my life – contending with Covid lockdown and a trading slump.

**Rusty:** I need the reason. Do not say money. Why do this?

**Danny:** Why not do it?

**Danny:** Because yesterday I walked out of the joint after losing four years of my life and you're cold decking "Teen Beat" cover boys.

**Danny:** Because the house always wins. Play long enough, you never change the stakes, the house takes you. Unless, when that perfect hand comes along, you bet big, and then you take the house.

**Rusty:** Been practicing that speech, haven't you?

**Danny:** Little bit. Did I rush it? Felt like I rushed it.

**Rusty:** No, it was good, I liked it. "Teen Beat" thing was harsh.

From Oceans' Eleven

## Two Thirds Lived

By way of introduction to this weekend piece, this prosaic verbal diarrhoea, I realised I have lived through two thirds of my life – at least statistically speaking. Maybe my debauches youth will subtract a few years. Maybe my body conscious revolution that started in my 40's will add a few.

Either way, give or take, I have 25 years left to live. Time is a commodity, delicately balanced between a desire to express myself and getting to the point – sooner rather than later. Bullshit is not an option. I seem obsessed with failure. Maybe because I love to learn from it – my own and others.

## Suicide by Train?

The call came late in the evening. My friend was suicidal because of the losses he sustained. He called me to say that he was standing at a railroad bridge. I don't think it was intention to end his life. I think he needed someone to talk to.

I am not trained in the science of the mind, and while I have achieved things in trading, which are considered "outliers", I am not blind to the fact it was not all skill.

“Luck”, you say? Oh yes. There was a huge element of luck involved too. My friend on the bridge had not been lucky. We spoke for a long time that night.

“Think of the lesson you are teaching your son and daughter. You are telling them that when the going got tough, you jumped in front of a train.”

I supported him, lend him some money, and I heard his keys unlock the front door. Since then, he has been on an upward trajectory. Failure is everywhere. Our response is optional.

### **From Chicken Farmer to 1st Class Travel**

During the flash crash of 2010 I was drunk, and I had a huge position on. That was not a smart move, but Rioja at 5pm creates a wonderful buzz. My friend Roy talked me through it, and I am grateful for his assistance.

Roy himself, however, was not so lucky. He was the son of a platinum miner. His father had made his money mining precious metals in Canada and had come back to shores of northern England to set up a factory breeding chickens.

Roy and his brother worked on the factory floor for their father’s thriving business. During the 1990’s Roy became interested in CFD trading. Over the ensuing years he developed a system for trading stock indices using a 30min chart. He told me it was inspired in part by the book called The Taylor Trading Technique, by Gorge Taylor.

It was a simple but highly effective strategy. It required Roy to check the charts every 30min, and if the parameters were right, he would execute a trade. Otherwise, he would leave it alone until the next 30min period was up, at which point he would check the charts again.

Roy became so adept at trading the 30min chart that he soon made much more money trading than he did managing his father’s factory. He decided to sell his share of the factory to his brother and focus all his energy on trading. Roy did well. Roy did well.

I have traded with Roy on many occasions in my house or online. He possesses supernatural patience. I have personally never seen a man, or a woman stare at a screen from the open of the US market to the close of the US market and not trade once. Yet that was the norm for Roy if there was no signal. “There was no signal” he would tell me dryly. Amazing patience.

I believe that Roy’s patience and his pattern reading ability made him the super trader that he was. He lived the life of the super trader too. He ordered a custom-built house. He travelled first class to exotic holiday destinations with his loving wife and children.

However, all super traders will at some point, or another go through bumpy terrain. It is not a question of when, because it will happen - but a question of how badly it will affect you.

## Saddam Hussein

For Roy, the bumpy road caused him to lose everything. His trading account, his wife, and his house. I stepped in when Roy was living on the street in Manchester, suicidal and penniless. I did what I could – but Roy did not want my help, and I lost contact with him.

It started with a bad loss, and it escalated into a complete blow-out. Roy had seen a pattern on a Friday night, and he had gone maximum short the market. At the close he was well in the money, and he decided to keep the position over the weekend.

Unfortunately for Roy, this was the weekend when the American special forces finally captured Saddam Hussein. The financial markets cheered at the good news. I guess naively they thought that the middle East powder keg would settle down once Saddam had been captured. That Sunday night the American markets opened limit up!

“Limit up” is a situation where the market is unable to move any higher until the stock market opens at 09:30am in New York. Roy was short, but he was unable to close his short position – because when the market is limit up you can’t buy – which is what you need to do to close a short position.

Roy was awake when the phone call came. It was his futures broker. Roy was informed of his options. Deposit more money on the account or risk being closed out once the future market came out of limit up. Roy did not have any available capital. It was a long night and a long day until the market finally opened at 2:30 UK time, where Roy lives.

The market opened and stocks soared. The broker liquidated his position because he was in breach of the margin requirement. The account had stood at close to £750,000. Now there was only £400,000 on the account.

You may say that £400,000 is also a decent pot of money to trade with, but something short fused in his mind. He saw the market soar that day, and he saw his position being liquidated. Unfortunately, he also saw how the market came all the way back to his entry point.

You see, once the good news had been digested by the market, there was a feeling that this probably was not such great news for the market after all. The Dow index came all the way back, giving up all the gains for the day.

Roy felt the broker has cheated him. He felt as if he had been forced to liquidate. He felt that the broker had acted too hastily. He tried to complain, but his claim was rejected.

He then tried to make up for the lost money through trading, but his head was not right. He began to second guess his system and double up on trades. Then the house builder demanded payment for the house. Roy had paid a deposit, but now he could not make full and final payment. He lost the deposit and the house.

Roy was unable to stop his own downfall. So was his family. He began a pattern of lying and withholding information for his own gain. The last time I heard from Roy was when he cheated me out of a fair sum of money, only to disappear.

He told me he had fallen, and he was in hospital. When I called the hospital a day later, they never heard of him. I have not seen him since.

### **London Pride**

Sadly, this is not an isolated story. I have had to cut short a business trip while working in the City of London because my boss called me back to the office. There was a client in our reception crying his eyes out because he had lost £750,000 trading forex.

He was afraid to go home and tell his wife about it. He begged my boss to lend him money so that he could trade again, and hopefully make the money back. His pride could not face the scrutiny of failure.

You may think that this individual lacks the moral fortitude to trade. You may even think less of him because of his apparent lack of dignity. What if I were to tell you that he was a famous eye surgeon in a prestigious private London clinic?

Education means extraordinarily little in this industry. It does not matter where you went to school or what your job is. If you do not know how to handle a losing trade, or a winning trade for that matter, you will not go far in this arena. It is for this reason that I tell people to spend less time on technical analysis and more time on “self-analysis”.

### **Bahamas Seafront House?**

I got a message from a close friend of mine. He was stuck in a rut. He trades full time. He has been doing it for 15 years, and unlike so many other hopefuls, he has managed to make a success of it. He has made himself a good living over the years.

I don't know many traders who like to talk about what they earn from their trading. When I spoke to my friend about it, he told me he had made about the same as if he had a well-paid managerial job in the City. However, he had no commute, and he had time to be there for children when they came home from school.

To me, my friend is an example of a person who made trading work for him. He had not made himself rich in the process, but he had paid the bills, put food on the table for his family, taken them on holidays, and bought a nice family car. There seems to be an inclination to describe trading as the venue for making untold riches. Yes, the potential is always there, but with bigger rewards comes bigger risks. You cannot catch big fish in shallow waters!!!

However, my friend was tiring from the long hours, and he called me to talk. He asked me if I had ever had enough of the endless hours of watching the screens. I immediately responded “No, and if you feel like that, you have to stop trading and take a break from it all.” We spoke for a while that night on the phone.

He told me that now that the kids were older, they wanted to hang out with friends rather than their old dad. His wife worked full time too. It meant he was often alone in the house from early morning until later afternoon, and it began to bother him.

I helped him get a few job interviews with some brokers in London and he secured himself a job as a broker, on account of his in-depth understanding of the markets and also his ability to understand what clients are going through in their trading.

An innocent story, I am sure you would argue, so why am I telling you about my friend? Well, I am telling you the story for several reasons.

The first reason is that trading can be a very lonely business. It has never bothered me, but I have the deepest of sympathy for those who feel lonely while trading. I am not sociable and prefer my own company, but even I like to pick up the phone from time to time and just shoot the breeze with a friend. Even I like to go to a foreign city and give a talk about trading.

When I worked in the City, I would at times stick my head into the office of the boss, who always had a minute to say hi and catch up on life. If you one day decide to make a go at trading full time, you may experience a twinge of sadness that you no longer have the odd chat with a work colleague.

I recommend that you take a week or a 14-day holiday and try full time trading, before you hand in your notice to your boss, and begin your full-time online trading job. It will give you a taster of what your day will look like.

The second reason I told you the story about my friend is to make sure you realise that a pause from trading is not the end of trading. The markets will always be there. My friend will no doubt be back to trading full time one day. In the meantime, he is enjoying a new life where he is helping others achieving what they want from trading.

The third reason I am telling you this story is because I would love to see you succeed, but I think it is important you understand that trading may not offer you the rainbow you had hoped for. But does it have to?

Could it not just offer you a good income where you are working on your terms and perhaps doing something which you find immensely interesting? Does it have to result in owning a beach front property in the Bahamas?

Sure, if you get there, I am happy for you, and you should be proud of yourself. However, if you do not get there, but you still manage to pay your bills, put money aside for the sweet things in life, as if you were the recipient of the monthly paycheck, then to me you have done what the 99% of the population do not dare to do. They dare not taken the chance on their dreams. If you can make a living from it, be it a decent living or a great living, then you really are something out of the ordinary.

And trust me when I say, that once you understand trading better, you will also come to understand what makes you work optimally in the trading arena, and that is when it gets fun being a trader.

## Dealing with a slump

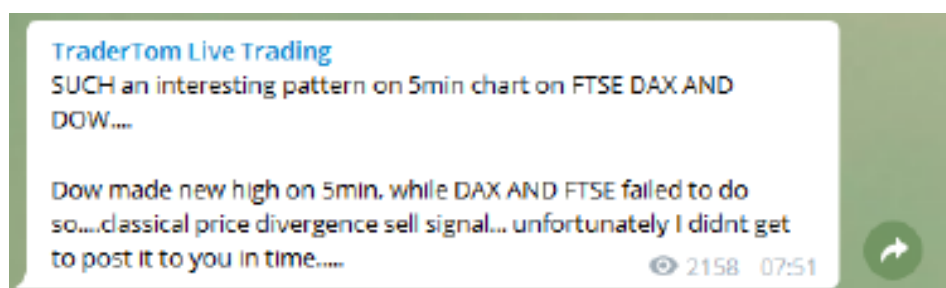
What is not so fun is when you are going through a trading slump. I am currently in a trading slump. Perhaps a little perspective is needed. It is the last day of the month and yesterday I lost 180 points. Today I am down another 50 points. A slump is a dive in performance. I am up about 2000 points on the month, but yesterday was the biggest lost in months.

I run a channel in Telegram where I call out my live trades. I am generally profitable every week, and almost always profitable at the end of the month. Of course, there are losing days. That goes without saying, but by and large I make money most days. I think over the last 15 months I am up some 20,000 points from my live trading calls in Telegram.

However, right now, I am in a slump. 28th May was a significant loss day for me in the Telegram group. I decided to go through the trades on paper to see if there was anything to be learned from the experience.

The day started with an observation on my part. Unfortunately, by the time I had reacted to it myself and was ready to post it to the Telegram group, the market had moved too far for it to become a trade with integrity. I am not one of those who post a trade once it is already in profit.

The observation I posted was the following:



## Roy's Pattern

At the time I was unable to show the pattern, but I have created the chart formation on the next page. What you are seeing are three stock indices – one on top of the other – so that it is easy to see the pattern.

At 03:15am the FTSE index makes a top. The DAX index and the Dow index tops at the same time. Why they top at the same time is most likely because of algorithms trading the market at that hour.

Now go to the top at 07:00am and notice that this top on the FTSE index is lower than the 03:15am top. The DAX index makes an identical pattern. The DAX index at 07:00am also makes a top, and the top is lower than the 03:15am top.

However, the Dow Jones index, which also makes a top at 07:00am, is making a higher top than its 03:15am top. It is not a lot higher, only marginally higher, but nevertheless, it is a higher top.

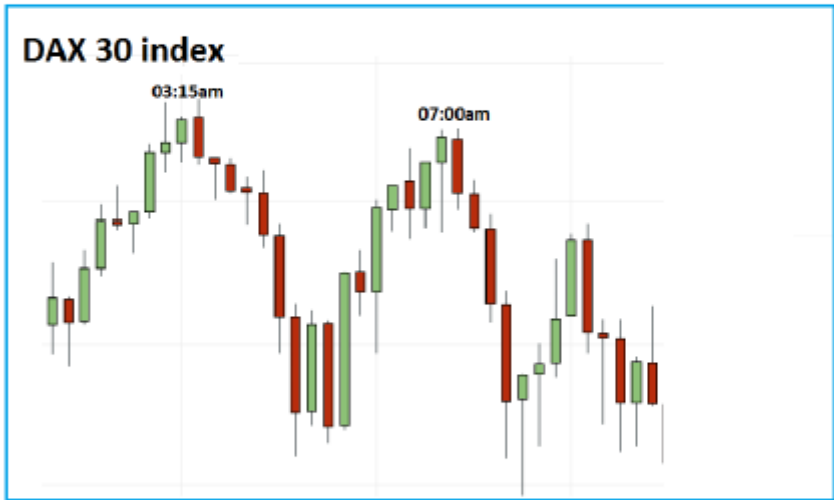
When you sit and stare at charts all day for 20 years, you notice things. You notice that stock indices from different countries move in unison. If the Dow rallies, so too does the DAX and the FTSE. Sometimes it is impossible to see which one moves first.

One of those things I have noticed – inspired by Roy’s observation - is that if the FTSE and the DAX is unable to make a new high, and the DOW makes a new high, and I then get a reversal formation, such as two consecutive red bars, then I need to be short the market.

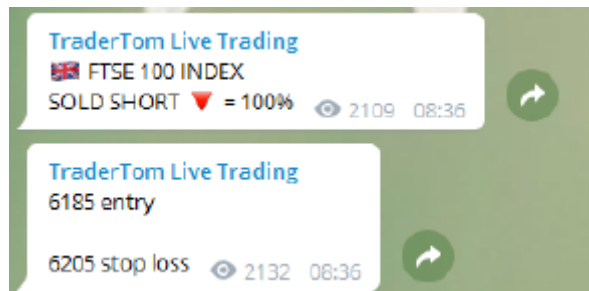
I informed the group of this, but as you can see on the chart, the reversal was fast. It is exceedingly rare I do not get a signal posted to the group, but I spotted it while out running (yes, one can run and observe charts at the same time – did you not know that?), and I did not have access to Telegram on the phone I was running with.

The next page shows the divergence between the Dow index, the DAX index and the FTSE index.





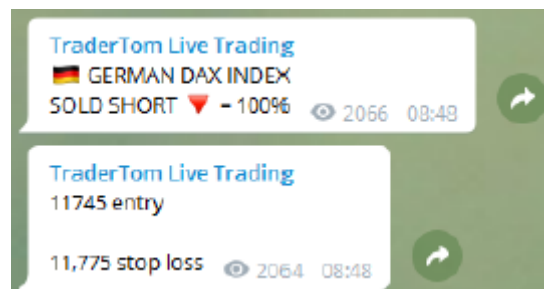
At 08:36am I posted a short signal in the FTSE 100 index. The message looked as follows:



This is how it looked on the chart.

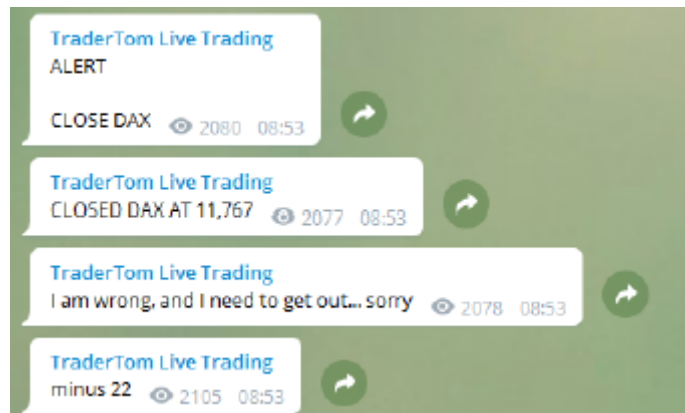


Shortly after I posted a short position in the DAX with the following message:



The chart entry is a double top. The trend is down, but the next bar almost immediately disproves my trade argument. I realise I might be wrong.

I post the following message:



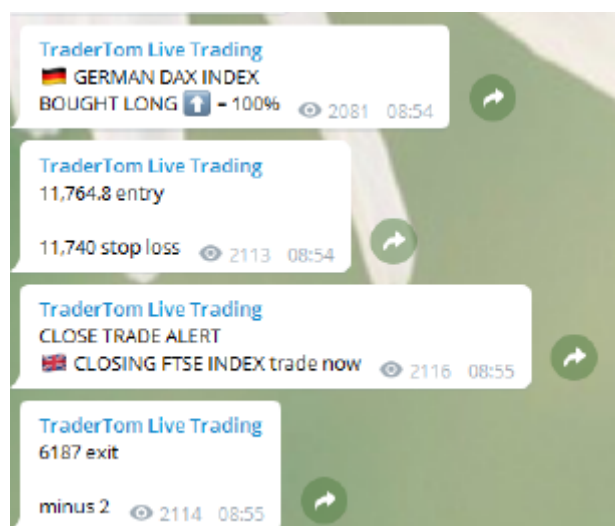
I could have let the market hit my stop loss, but I was so certain that the stop was going to be triggered anyway, that I decided to throw in the towel immediately.

### Reversing From Short to Long

I reverse my short position to a long position. My eyes are observing the Dow Jones index, and it does not seem as weak as I had expected. I decide to turn bullish the market, at least for a little while.

I post the following message, where I go long the DAX and I also announce I am closing my short position in the FTSE index.

The loss in the Dax index was 22 points. The loss in the FTSE index is more modest – 2 points.



On the chart it looks as follows:



At its most positive the DAX long position is making me some 18 points. However, the DAX reverses back down, and I stopped out at 09:32am for a loss of 25 points.

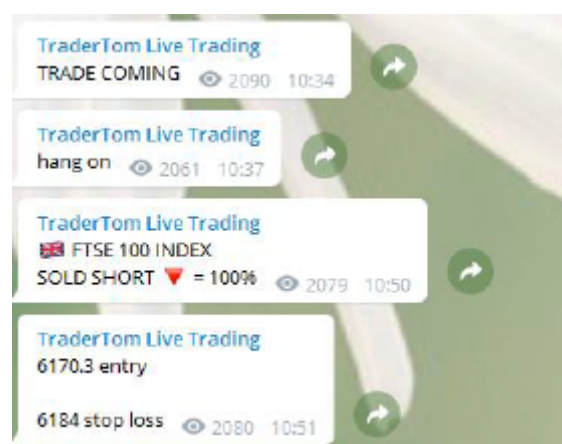
### Emotions Run High

At times I get complaints from people saying they are unable to always get the same entry price as mine. That is quite possibly true, although that is an issue with the medium Telegram rather than my entry price posting. I frequently do a time test to expose whatever latency is prevailing at that moment in time.

In this case however, the long entry in the DAX was posted just as the market dropped. I paid 11,776 to get, but within a few seconds the Dax could be bought at 11,763.

So far, the score is minus 2, minus 22 and now with the DAX loss on the long position minus 25. In total I am now minus 49. The points quickly add up. It is not even 09:30am at this point.

At 10:34am I am alerting the group to the fact that I am waiting for a short signal in the FTSE. However, I have to wait 13 minutes before I finally commit to the trade. The posting looked as follows:



This is how it looked on the chart. Yes, it isn't always pleasant to review trades like this, but you learn a lot from doing it. I like selling weakness, and I like buying strength. That does not mean it is the only thing I do, but in this case, I am most certainly shorting weakness.

Would I do anything differently now? Nope. I lost but as far as I am concerned, I did the right thing. I lost 13 points. Now I am minus 62 on the day.



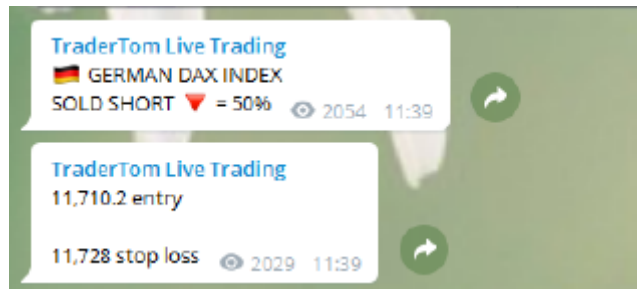
The next trade comes soon after. I was stopped out at 11:30am, and I place the next trade at 11:39am. The pattern I am observing is valid, but I wonder if I should have let the market sit for a while.

I had just been stopped out of a short position, albeit with a small stop loss, but nevertheless, I had been sent a message to say, "shorts will be punished". Of course, I also got a message earlier in the day that said, "longs will be punished".

The chart pattern looked solid:



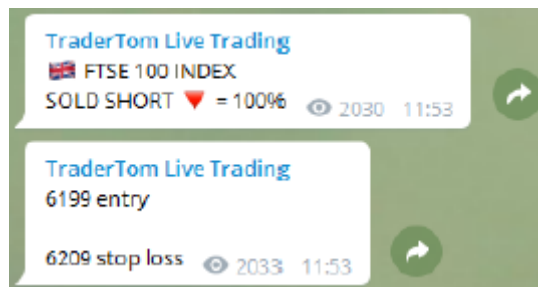
This is a classic case of broken support becoming resistance. I will sell short anytime I see a pattern like that. When I took at screen shot, I had just placed the short position. The post in the Telegram group looked as follows:



Fortunately, it was the right thing to do – for about 5 minutes. The DAX falls quickly 15-20 points, and I move my stop-loss down to minimise my risk. Unfortunately, the market is much stronger than I give it credit for, and I am once again stopped out – this time for minus 5 point. I am now minus 67.

The losses are adding up. Perhaps my desperation for a winning trade is too.

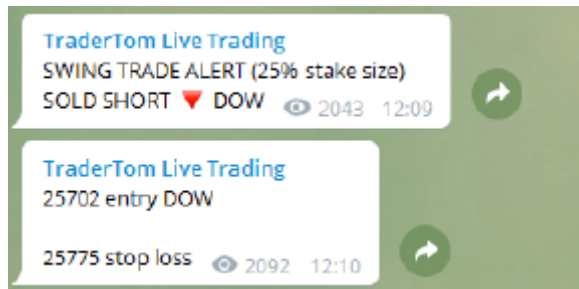
About 5 minutes later I spot a double top in the FTSE 100 index. The time is 11:53am – UK time.



On the chart it looks like this. Now some would argue that the channel has been broken and the market was poised to move higher. I think it is easy to say these things afterwards. I am the one who must make a decision on what I see. Sadly, even technical analysis is at times ambiguous.



At best I am 10 points in profit. While the FTSE short position is running, I spot a “short” set up in the Dow Jones index.



The Dow has made lower highs and lower lows all morning. I have posted the chart on the next page. I notice a very clear channel setup and I wait for the upper top of the channel to be hit and rejected, and then I sell short the index.

It works beautifully. The market quickly races 30 points in my favour. Then it stages a great reversal, and before I can say “what just happened”, I am again sat in a losing trade. The FTSE trade is now also losing me. I get stopped out of both.

Minus 73 points in the Dow

Minus 10 point in the FTSE

The losses are adding up!

Should I have moved stop loss to breakeven in Dow and in the FTSE? Possibly. I had 10 points in FTSE and considering my stop loss was 10 points, it may have made sense.

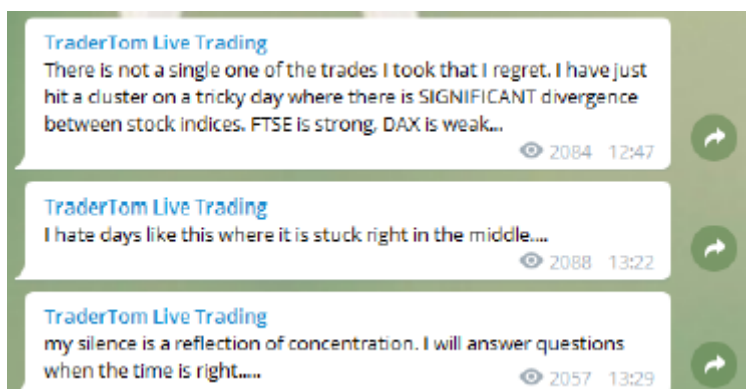
The Dow is a little different. I traded it in a 25% contract size rather than in 100% size. My stop loss was 75 point to reflect the volatility of the Dow. I had 30 points in open profit. I don't think that is enough profit to move stop loss.

I prefer to move stops to breakeven when I feel there is no real risk of the market coming back to my entry, or that my open profit is of such a size that it makes sense to move the stop to breakeven.

I am now minus more than 100 points on the day.



Now the situation is getting serious. I know it is not easy to recover from a 100-point loss. I posted the following comments:



I don't feel any added pressure when I trade in front of a group of people. What does however distract me is when I have to take on the "emotional luggage" of inexperienced traders. Let me show you an example. I have naturally blanked the name out of the individual.



### Translation:

Should I stop?

I really didn't think this was possible.

Really – what shall I do?

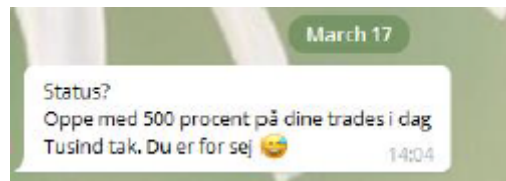
I am seriously sat here crying.

I am not good at dealing with people's emotion. I think I may suffer from too much empathy at times. In this case however, I was frustrated that anyone could be so short-sighted about their own plight and not realise the immense emotional pressure it meant to receive messages like this. I sent the gent a message to go and get some fresh air.

It turned out that the gent had lost 10% of his account. I consider that perfectly normal, but I am not everybody, am I? I just don't think you can trade and say double your account in a week without accepting that you will have some 10% knocks. This was no secret to the man either. He had enthusiastically sent me a message early on in his time in my Telegram channel that stated: I am up 500% today on your trades.



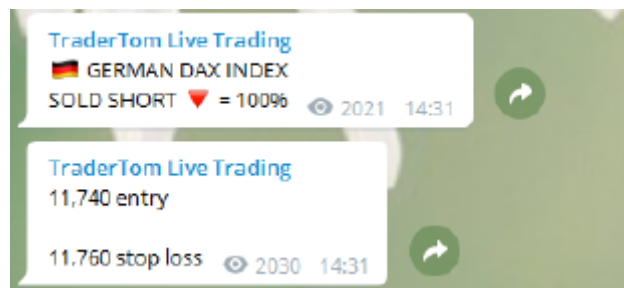
You don't believe me? Here is the proof. You might not understand Danish, but the 500% and the smiley face should tell you what you need to know.



By the time the Dow Jones index opened on this day, the 28th May 2020, the DAX chart looked bearish. I contemplated a short position on the basis of this pattern.

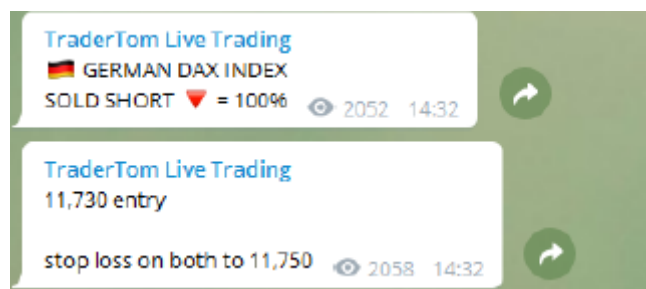


I posted the following message:



The market immediately rewarded me with points. I thought to myself: “finally we are seeing some direction to the downside.”

I decided to get aggressive to the downside, so I sold short another 250 euros a point. I posted the following message to the channel:



The market was looking weak, and I was pushing the short side. Was I getting too aggressive? No. I have done this thousands of times. Unfortunately, today was going to be one of those days where my strategy was going to explode in my face.



I quickly get stopped out on both trades. My stop losses are too tight. 20 points is not enough. I short again once more. Once more, with a minute or two, I am stopped out. I have circled the area I tried to short. Every time I pushed the short side on weakness – the red bars – the market reversed hard. It was painful and it cost me 80 point very quickly.



I was now minus 175 points on the day.

I traded once more, actually going long the Dow. It was a decent trade, which at one point was plus 75 points, but I was stopped out for zero. In fact, that trade sort of summed up my day. My entry was 25,604. The market went 25,604.5 – meaning that with the spread of 1-point at TD365, I just got stopped out. The Dow then rallied 150 points over the next 3 hours.

I am not moaning. Those are just facts.

I ended the day losing about 175 – 200 points. The spreadsheet looked like this:

Week 22 2020										
		Normal points	% Trade	100% P	Risk points	Short/Long	Open	S/L	Close	S/L 2
28. May 2020 THU	FTSE	-2,0	100%	-2,0	20	Short	6.185,0	6.205,0	6.187,0	
	DAX	-22,0	100%	-22,0	30	Short	11.745,0	11.775,0	11.767,0	
	DAX	-24,8	100%	-24,8	25	Long	11.764,8	11.740,0	11.740,0	
	FTSE	-13,7	100%	-13,7	14	Short	6.170,3	6.184,0	6.184,0	
	DAX	-4,8	50%	-2,4	18	Short	11.710,2	11.728,0	11.715,0	
	FTSE	-10,0	100%	-10,0	10	Short	6.199,0	6.209,0	6.209,0	
	NDX	-73,0	25%	-18,3	73	Short	25.702,0	25.775,0	25.775,0	
	DAX	-10,0	100%	-10,0	20	Short	11.740,0	11.760,0	11.750,0	11.750,0
	DAX	-20,0	100%	-20,0	20	Short	11.730,0	11.750,0	11.750,0	11.750,0
	DAX	-20,0	100%	-20,0	25	Short	11.725,0	11.750,0	11.745,0	11.745,0
	DAX	-28,2	100%	-28,2	28	Short	11.716,8	11.745,0	11.745,0	
		0,0		0,0	0					
		0,0		0,0	0					
		-228,5		-171,3	25	Ave. Risk P.				11
							Won	B/e	Lost	#
	DAX	-129,8	Aim point	-127,4	% point	0,0	Ave. Risk	0	0	7
	FTSE	-25,7		-25,7		0,0	Ave. Risk	0	0	3
	NDX	-73,0		-18,3		0,0	Ave. Risk	0	0	1
	FOREX	0,0		0,0		0,0	Ave. Risk	0	0	0

### The Frail Ego

My ego immediately tells me I am plus 2000 for the month. It is trying to soothe the pain. I counter by staying with the pain. Sure, a little perspective is healthy, but at the expense of a lesson.

Can I learn anything, is the real question to ask?

Yes. I believe I can.

1. I followed the process and I learned that even though I was under pressure on several fronts I never lost focus. I did what I had to do.
2. Almost all the of the trades went in my favour at one point.
3. I was too aggressive at the US open. Sometimes that pays off tremendously, like the day after, but on this day, it meant doubling my loss. It happens.

There you have it, the complete analysis of a bad losing day.

Can you appreciate that this is not just some words thrown together? It takes a time-consuming amount of commitment to go over one's trades. I think one reason for the disastrous success rate in the trading community is the lack of real commitment to learn to trade.

We think attending a weekend course will do the trick, but it will not. I run the occasional weekend course, and I know that my students will get the best trading education in the world, but if they don't run with it by themselves and put in the hours, then what is information?

What is knowledge if it is not accompanied by the will to act?



## The Will to Act

You see it is rather easy to sit down and read a book on technical analysis, but it is an entirely different proposition to follow through with it on a daily basis.

During the Covid19 pandemic, it became known to the public that the older you were, the more at risk you were. If you were also overweight, then the odds of successfully battling the virus was severely reduced. I looked at that tiny protruding belly of mine and thought to myself "that is not good."

I went on the scales and it read 15 stone 6 pounds. Now I am a tall man, around 6 feet 3 inches, so I can carry it to some degree. However, facts are facts. I was overweight.

I considered my options and by chance I spoke to a good friend of mine, who had been in a similar situation. He recommended logging the calories and he recommended an App for it. The app is smart, I must say. You log your goal and your current exercise regime, and it calculates how many calories you can consume daily. Job done.

Except it is not job done, is it.

Now I have the knowledge, but do I have the will to act? Well, I started dogmatically logging my food intake. What an eye opener. I used to drench my food in ketchup and mayonnaise. Do you have ANY idea of how many empty calories there are in those products?

It was an incredible journey to begin with. I revelled in it. I wanted to do the best I could. Here I am, 10 weeks later, and I now weigh 14 stone 6 pounds. I have a little while to go, but I have transformed my physical life through knowledge AND the will to act.

There have been days where I just did not feel like it. There have been two days where I thought "to hell with it" and I ate Toblerone. When you think about it, what is two days out of 10 weeks? Its 3%. So, I went off rails a couple of times, but I stayed on track for 68 days.

What does this have to do with trading?

I have a work schedule that I keep to diligently. I shall try to outline it in a few bullet points.

1. Get up around 04:30 to 05:00 am – exercise.
2. Arrive at desk around 06:30 to 07:00am to prepare for trading day and trade.
3. Trade until around noon – lunch
4. Trade until 9pm – observe US while cooking and eating.

What does my research consist of? Let me show you another example of what I do as a routine. I will go through the 5-min chart each trading day on a selection of products I trade most frequently. The Dow, the DAX, the FTSE index are my primary trading vehicles during a normal trading day. If oil is moving, then I am trading that too. I was particularly active in oil during the crash of March of 2020.

The reason I go through the chart is two-fold. I want to make sure I did not miss any trades. The second reason is simply to train my eyes to see patterns.

My lines may not mean much to you but to me they are paramount. In a world which is ruled by algorithms and artificial intelligence used for executing trades, my job is not to re-invent the wheel. My job is to study and understand my opponent, and how he acts during the trading day. Where is he buying? Where is he selling?

The reason I am doing this work is because I believe I will only ever see on a chart what I have trained my eyes to see. I want to get the best trading entries and that takes training and more training, and then focus on the trading day. There are 102 bars of 5-minute duration during a typical trading day in Europe. That is a lot of signals to filter through during a day.



## To Hell with Convention

One of the issues I have with conventional trading wisdom is that I find it completely misleading. For example, we are told to buy low and sell high. If you are buying “low”, you are essentially trying to buy something on the cheap. The chances are you are trying to find a bottom in a down-trend.

I prefer to turn the saying on its head and state it as follows: “I like to buy high and sell higher. I like to short low and cover lower.”

Another conventional advice in trading is to trade with a target in mind. When I am in a position, I do not trade with targets. I will let the market tell me what it wants to do.

I really do not understand people who trade with targets. I think it is important you know why. If I am a 50/50 trader, meaning that the number of profitable trades vs losing trades is about even, and I know how much I will lose on the losing trades, then why would I want to limit my profit on my winning trades?

It does not make sense mathematically. It might make sense emotionally because you attempt to quantify everything. I understand it makes sense intuitively to say that you risk 20 to make 40. The problem I have with that approach is that when I get to “40”, I am going to be curious and see if the market will give me 41 or perhaps 42 and so on.

I know some of my own idols, people who have trained me to trade, work with strict risk to reward scenarios. I personally do not. It makes no sense to me to take my profit at 40 points, just because I risked 20 points – and thus satisfied the criteria of a 2:1 reward to risk.

I want to see what the market wants to give me. Those who trade with a risk to reward ratio of some number to me are playing the same game as all those clients I saw over 10 years at a brokerage. They cannot wait to take their profit. I on the other hand cannot wait to take my loss, but I prefer to be patient in taking my profit.

I argue that you should take your loss quickly and take your profits slowly. As I type these words, I am in a short position in the FTSE 100 index. I sold a double top at 6200. The old top was 6203, and the new top was 6207. I waited until I thought the market would not move any higher and then shorted. I risked 13 points. If I was playing the risk to reward ratio game, then I would consider taking profits now at 6174. I am after all in plus by about double of what I risked.

Why would I want to take profit now? Does this chart look like it is headed back up again? It does look like that to me. So why would I take my profit?

To protect myself from losing my profits, you say.

Well, if I used that approach, I would never catch the big winners. I would never let a position just ride and ride. Is there a chance this position will earn me nothing? Yes, there is.

My stop loss is at breakeven. Maybe the trade will reward me amply. Maybe it will turn out to be a big fat zero. Only by letting the market unfold and hold my position will I ever know.

If you find that thought discomfoting, then you are on the right track to making good money from trading, because then at least you know what area you need to focus your energy on. You do not necessarily need more technical analysis. You need to sit and imagine (visualise – as vividly as you can) that you are running a profitable position.



## Running to Stand Still

I have endured hard times. Progress has at times been slow. Setbacks have been frequent. Setbacks are always lurking. My goal is to stay in the game until I do not want to spend all my waking mental energy on the markets. This is a deeply personal journey, many times an imperceptible journey, where you feel you are not getting anywhere.

There is a fine balance between working hard at a goal and letting the process mature itself. On many occasions I have had someone to remind me of my impatience. I had a conversation with my girlfriend about trading during a particularly rough day.

It started off by me explaining why I was quiet and solemn.

“I had a huge position on. It was literally the biggest position I have ever carried. I was so certain the FTSE would fall. I had called the position in the room (Telegram), but I had traded it much bigger than the room knew about. I have seen the pattern so many times: Big fall off the open – 2-3 bar of 5min duration of rebound – and then new lows.”

As I told her the story, I walked over to the window and looked out onto the garden and the sunshine. I thought to myself that you must be a little mad to be financially independent and then still opt to sit inside a home office, when you could be on the beach.

It got me thinking about one of my big idols, Roger Federer, who just does not want to retire. He is one of the richest sportsmen ever, so it is not (just) the money that is driving him. There must be another aspect to that story. He was the best, but no one escapes age, and records are made to be broken. Could it be that he just wants another slam or at least make life hard for those who are chasing his records? Or does he believe in getting better.

I am no spring chicken myself, but I have found that while my body isn't as muscly as 30 years ago, I now have the advantage of a much stronger mind. When I exercise, it is the mind that is running the show, and the body is doing what it is being told to do.

I could not help but admire the thrilling relationship between Novak Djokovic, Roger Federer and Rafa Nadal. There is respect, but they desperately want to beat each other, and this create a burning desire that sustains them through a punishing season and training.

I have a few people I admire in the trading arena. I think they are awesome traders, but I desperately want to beat them too. I want to trade bigger than they do. I want to make more money than they do.

### **Mozart vs. Salieri**

“You know Tom, not everyone is like that”. I was interrupted in my thoughts by my girlfriend. It was as if she knew what I was thinking. “Not everyone has someone who is better than them, and who they stay up at night wondering how to beat. Not everyone is Mozart vs. Salieri.”

Unpleasant, I thought. Stick a knife where it hurts, and how does she know about Mozart and Salieri anyway. She must have read my notes. I thought we all had a nemesis, an antidote, someone who annoys us and yet we admire, someone who we are jealous of and yet also inspires us. I suppose I should be happy to have someone who I admire and who also inspires me to do my best.



“You know, my old professor Peele, I told you about him...brilliant man...do you know what made him brilliant? His colleague... Professor Kyle... They were best friends and neither of them would ever acknowledge that they were insanely jealous of each other, yet they were the two most brilliant minds anyone could wish to learn from..... you should really count your blessings that you have someone who you so badly wants to beat.. It is really not a curse. It is a blessing. What do you think would happen if your idols stopped trading? “

If they stopped, I thought, who would I beat then? I always loved beating my old high score, and I did today, in size, but she is right. I am not just trading to make money; I am trading to push myself into those places where I am not comfortable.

So, what happened this morning?” She interrupted my thoughts again...

“I was short £1,800 a point, and I was on the wrong side, but I knew it would come back to my entry point. I just felt it. And it did. And it continued lower, except I lost my cool and I started taking my profits, only to regret taking my profit and putting the positions back on, but now at a lower price.”

“So, you made money”, she said.

“Yes, I made money, but that is not the point. It is never about the money. It is about the process. If it was about money, then why do the truly greats (I wish I was truly great – one day maybe) show up to training every single day?

Why bother?

They can never spend all the money they made anyway. Rafa Nadal has untold millions, but do you remember when we saw him train at his Academy in Mallorca. He trained like his life depended on it. Remember? It was so hot that day that we could barely stay cool in the shade, and he was out there pouring his heart out in the sun, to get better.”

She interrupted me yet again:

“Yes, yes, I know. I know. I was there, but have you ever considered that you may just be TOO eager? Have you ever considered that by pushing yourself as hard as you do, you never really step back for a moment and let the knowledge mature?

I have seen your cardio training. I have seen your strength training. You are not letting the muscles rest. You are beating yourself up, when actually you should take a step back, and let the process mature. Could it be that your process in trading is like your process in training?”

“Less is more?” I asked. She is after all trained in these matters, so I suppose I should take guidance from her.

“Exactly. Less is more. You will invite downfall, if you don’t create contrast. I have clients who never stop. They do not have contrast, the contrast between say work life

and home life. How can you appreciate home-life if you that is all you have? How can you appreciate work life if that is all you have?

If you do not slow down and let the knowledge mature, then you will take a huge loss which will dent your confidence. Not every trade is the World Cup final. Not every trading session is the final exam of the final year, the culmination of 4 years of relentless studies. I know what you are trying to do, and I assure you, it will come, sooner than you think, but it will not come if you force it. You must remember that. “

“I choked” I said.

“Of course, you choked. Everyone chokes the first time and the second time. You are literally trading per point what some people spend 2-3 months earning in a normal job. A 2-point move for you is 3 months’ salary for me. 3 months. How can you expect a career without setbacks? You cannot have a standard attitude about money and do well in trading. You must accept that there will be big losses too. “

Slumps are inevitable. You are bearish and the market goes up. You are bullish, the market goes down. It happens to us all. All of us.

Is there a key to escaping a slump?

Perhaps. Michael Jordan describes going back to basics. Staying with the basketball genre, the late Kobe Bryant talked about midnight sessions, working on his weaknesses.

For me?

Confront my weaknesses. Come face to face with them. I do not believe in self-flagellation. I am kind to myself, but if I am not honest with myself, I am deluding myself. Simple. Honest. To the point.

### **From 1st Class to Park Bench**

Do you believe in hacks? A hack is short cut – designed to cut down the hours spent on acquiring a skill, for example. I do not believe in them. Sure, you can train smarter. Trading, however, is not just about your strategy.

Have you thought about why I started out this piece with a quote from Ocean’s Eleven? Have you thought about why I called this piece “From 1st Class to Park Bench”?

I do not want to throw cliches at you. The dark side of trading is that we probably end up with a 50/50 ratio of winning and losing trades. As Danny Ocean says, if you don’t bet big when the market is confirming your analysis, you just end up as a breakeven trader, or worse.

I am not aiming for 5% a year. I am aiming for a minimum of 5% a month. In order to achieve that I need to take risk. As my mentor Larry Pesavento wrote to me once.

If you want to catch big fish, you must venture out onto the deep waters. Big fish do not like in shallow waters.

The even darker side of trading is that it has the power to take it all away from you if you let it. The last contact I had with Roy was when I guided him from a park bench in Manchester to a bed & breakfast. I paid for him to stay there until he got up on his feet. He checked out the morning after. I have never heard from him since. It was a big fall, from 1st class travel to a park bench in the north of England.

It did not have to be that way, but Roy gave up.

Do not ever give up. If you do, you lose the lesson.