The Essential Characteristics of the Successful Trader

Yourself and The Market

While participating in several conferences and seminars on trading, I have had the opportunity to learn from many of the world's foremost experts on trading psychology. Much of what I have heard and read seems to fit quite nicely with my own 31 years of trading experience.

Often examples cited by the speaker or author would call to mind past trading practices and attitudes that I have had to modify, to conquer, to solidify so as to enable me to operate in a long term profitable mode.

The short term is but a small part of a much larger long term picture. That is to say that one trade is just one trade. Win or lose, you must move on to the next trading situation. You cannot afford the luxury of omnipotence nor the gloom of despondence.

Each trader in his own way must develop the ability to keep on going. You may have many failing trades and still win the long term pursuit of trading profits. But you have to keep going.

Each trader must develop a personal risk management program. Part of this risk management approach must include a definitive method of removing trading profits from the market. Deployment of these profits are best directed to a lower risk category of investment.

Each trader must learn to deal with uncertainty. Most trading situations are neither black nor white but a shade of gray. Trading is an uncertain art form. If you wait for certainty, it is to late. The profit opportunity is gone.

Each trader must develop the ability to focus. A one market approach may be the answer for some traders while a single trading approach to several markets may prove to be successful for other traders.

The successful trader will:

1. identify a signal or a market opportunity.
2. react decisively.
3. feel good - whether he wins or loses.
4. demonstrate self confidence.
5. exercise his independence.

Barriers To Successful Trading

Refusing to take a loss

is one of the more prominent reasons for failure in the trading game. It usually starts with the lack of a defined exit point when a trade is executed. Ask yourself: *"Where and when do I get out if I am wrong?"*.

Why are you trading?

Do you fully understand what your goals are as a trader? Trading is somewhat like golf. There are a vast number of golfers that enjoy the activity but they will never make a living at it. They incur the cost of club memberships, cart rentals, equipment, reading literature, private and group instruction, and so on. I would venture to say that most of these golfers have no intention of making money playing the game and they know that. They know why they participate. And for the few that go on to make a living at the game, they work their *"tails"* off day after day. They are willing to pay the price of success.

What about traders?

It is common belief that 85% to 90% of traders lose money in any given year. All traders incur cost such as equipment purchase or rental, subscriptions to trade journals and newspapers, private and group instruction and so on. Unlike the golfer, most traders have the intention of making money through their trading activities although they do not know quite how this is going to come about. They do not work their *"tails"* off day after day. They are looking for something easy. Often they lack a clear understanding of their motivation for trading.

Certain Trading Styles

The suicidal trading type

is bent on committing financial extinction by jumping in front of moving trains. They insist on selling into run away markets only to see the market move higher. At this point, (they reason) it has to be a better sell than the first position. After all, they are selling at a higher price. And of course they love to buy a market that is falling "out of bed". And the next day when prices are even lower, wow, another bargain. These guys always think that they see the light at the end of the tunnel. The only problem is this light is on the front end of a locomotive. Many of these suicidal types love to point out that they have (had) a $100,000 trading account. They know a bargain when they see one. After all they made their money snapping up bargains in their other life.

The euphoric trading type

has no plan of withdrawing profits from the trading account. A hot streak comes along and each successive trade is larger than the first as all profits are plowed right back into the market until the loss comes while our euphoric trader is up to his eyeballs in contracts. Not only does he give back all of the profits, often the account is wiped out and possibly more.

Your Trading Profile

"Know Thyself"

Why are you trading? What are your objectives as a trader? What is your strength? What is your weakness? Are you persistent? Do you have courage? If you do not have a satisfactory response for any of the previous questions, now is the time to work on this. There is no one correct answer to any of these questions. Only your answers. However, if you are kidding yourself, you will not fool the market.

"Know Your Market"

All markets have a personality of their own. There are important reports that can and will cause unusual volatility and periods of illiquidity. The more you know about the market you are trading, the greater your trading advantage.

Identify and Develop Your Trading Style

Are You A Mechanical Style Trader?

Do you have study time, desire, persistence, and emotional control? If you lack any of these characteristics, then perhaps you should consider a mechanical approach to trading.

The successful mechanical trader will:

1. accept the fact that a mechanical trading method is a compromise between the goal of eliminating the poorest trades and retaining the best trades. This fact will insure that at times a good trade will not be followed and at times a poor trade will be followed.
2. accept the fact that a mechanical trading method can only succeed if the method is consistently followed.

Are You An Intuitive Style Trader?

Do you have study time, desire, persistence, and emotional control? If you have all of these characteristics, then develop your trading style by emphasizing the "*Art of Trading*".

The successful intuitive trader will:

1. trade what she/he sees - not what she/he thinks.
2. be patient, willingly to wait for the good trading opportunity and then pull the trigger.
3. forego the marginal trades.
4. will not trade just for excitement.
5. do the daily homework necessary to hone their trading skills.

Traits of a Successful Trader

Courage...

"The credit belongs to the man who is actually in the arena, who strives valiantly; who knows the great enthusiasms, the great devotions, and spends himself in a worthy cause; who at best, knows the triumph of high achievement; and who, at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory nor defeat."

Theodore Roosevelt

Persistence...

"Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent."

Calvin Coolidge

The above quotes strike me as being appropriate for all of us engaged in the endless quest of trading profits. I make it a point to review these statements on a regular basis as I am well aware of the fact that I am only as good or bad as my last trade.

I accept the fact that I will never have it *"made"* as a trader. Each and every day is a new trading situation and I must be prepared with my trading plan. I must *PLAN MY TRADE AND TRADE MY PLAN*.

In My Opinion

Trading Is An Art

and mechanical trading methods and indicators are best used as just another tool in the practice of *THE ART OF TRADING*.

Diversification

achieved by trading a variety of markets is a mistake for most individual traders. Every market has its own characteristics and a singular trading plan will not work equally as well in all markets. You may well improve your trading success by learning one market with the goal of becoming the best possible student of this selected market. You may find that trading just one side of this market the key to your success.

Learn To Survive

There are as many methods of trading as there are traders. Every trader is different and no one trading approach is right for all traders. Find the methods that work for you and then concentrate on repeating these techniques.

Take Time Out

Every trade consumes emotional energy and a tired trader is a handicapped trader. Take a break - go on a vacation. Get away from the markets - spend some time with family and friends. Trading from a position of emotional strength is as important as trading from a position of financial strength.

The First Calculation Is Risk

The first question concerning any trade concerns risk or the amount you are willing to lose. If the protective stop has to be placed where the loss exceeds your comfort level - either move the stop closer or *DO NOT TAKE THE TRADE*.

Remove Part Of Your Trading Profits

from your account. The first objective is to remove enough profits from the trading account to cover the initial starting amount. This can be achieved by removing 50% of trading profits above a set amount. If you start with $8,000, remove 50% of any profits when the account moves above the $10,000 level. When you have removed $8,000 from the account, you will then be trading on money gained from the market. Once your account reaches the $30,000 level remove all profits above the $30,000 level. Continue to trade within these guidelines until you feel very secure in the number of contracts you are trading. Eventually you may feel secure enough to slowly increase the account size.

Trading *"Size"* Is More Than Just Adding Contracts.

The pressure from adding more contracts increases geometrically as the number of contracts increases arithmetically. Whatever number of contracts you are trading successfully, stay with that number. Otherwise, you will find yourself taking a loss on 10 contracts and then you decide to cut back and trade only 3 contracts on the next signal which turns out to be a winner and the end result is a profit that does not equal the loss on the previous trade of 10 contracts.

FIND YOUR TRADING COMFORT LEVEL AND STAY WITH IT FOR A LONG, LONG, TIME.

WHEN YOU FEEL THAT YOU ARE A SUCCESSFUL TRADER, AN AGGRESSIVE USE OF YOUR ACCOUNT FOR TRADING THE FULL SIZE BOND CONTRACT WOULD BE AS FOLLOWS:

Account Size:	$8,000	Trade	1 Contract
Account Size:	$14,000	Trade	2 Contracts
Account Size:	$20,000	Trade	3 Contracts
Account Size:	$25,000	Trade	4 Contracts
Account Size:	$30,000	Trade	5 Contracts

When your account reaches the $25,000 level, have your broker purchase a $10,000 T-Bill which will then be used for initial margin requirements.

A Solid Financial Foundation

Trading is a highly speculative business and one never knows when a trading *"accident"* is about to happen. If you trade, sooner or later you will *"wipe out"* your account. If fact, you may wipe out your account a number of times. You must plan for this and more importantly, you must have a plan for recovery. All traders lose money. It is the trader that has the ability to recover and to move on to a profitable position that will succeed in the long run.

The average investor that uses trading as a part of his portfolio should limit trading activities to no more than 10% of his total investment funds. For each year of the traders age, 1% of his investment funds should be placed in U.S. Government Notes and Bonds. This is accomplished by using a TREASURY DIRECT ACCOUNT (see appendix A). The remaining investment funds should be allocated to a systematic program of investing in common stock growth funds. This can be accomplished through the use of no-load mutual funds spread over such areas as International Funds, Index Funds, and small cap stock funds. A dollar cost average approach is the best way to handle the fund investments.

Any portion of your portfolio that involves trading falls within the 10% limit of your total investment funds. This includes futures trading, stock trading, and mutual fund timing.

Before Becoming A Full Time Trader

Get completely out of debt. Pay off the house mortgage and the car loan. Carry no balances on your charge cards. Only charge what you can pay off in full each and every month. Accumulate a significant reserve of cash invested in three or six month Treasury Bills. This can be done through your TREASURY DIRECT

ACCOUNT (see appendix). As soon as you are trading full time, set up *Keogh* and *Money Purchase* retirement plans and contribute the maximum amount each year.

The Individual Trading Plan

Some traders operate best from one side of the market. If this is your situation, then build your trading plan around your strength. If you trade best from the long side, trade only the buy signals. If the short side is your strong suit, then trade only the sell signals.

Many traders will successfully operate from either side. Their trading plan will follow both valid buy and sell signals as they are as comfortable being short as being long.

Trading size is directly related to our ability to withstand a loss. Once you exceed your comfort level by increasing your trading size, it will be difficult for you to carry out your trading plan. Find your trading toleration and then stick to it. A range of contract size such as 1 to 5 contracts may prove to be an acceptable level of trading for some individuals while being unacceptable to other traders. It is a good practice to trade a different number of contracts for different trading situations.

The number of contracts associated with any particular entry signal is decided upon by a variety of considerations. The first entry signal of a new direction in the market usually will reach its profit objective with the least amount of adverse price movement whereas a later entry signal in the same direction may encounter difficulty in reaching its profit objective. When a new direction begins, put your full position on with the first signal. Later signals in the same direction should be traded with a smaller number of contracts.

Your Trading Plan

The implementation of your trading plan will be evaluated by the market place and your grades will be posted trade by trade, month by month, year by year. Consistent failing grades should alert you to either a need to change your plan or how you are carrying out your plan. Do you give up because you have failing grades? Of course not. It takes years of trading experience to become a good trader. While I cannot guarantee successful for everyone, relatively few traders are successful early on. If they are, it usually is a fluke and it is but a short time and they give back most of their profits and then some to the market place.

Patience, Courage, and ***Persistence*** are all required ingredients in the recipe of successful trading.

What Is Your Position

Are you long, having bought with the idea that prices are headed higher, or are you short, having sold because you feel prices are surely headed lower? How about flat? Is there anyone on the sidelines awaiting the next entry signal? As a position, being flat is as important as being long or being short. Many traders, to the detriment of their trading health, have the mistaken idea that a sideline position is tantamount to not participating. They insist on being in the market at all times — worried that they may miss a trading opportunity.

BEING FLAT IS A POSITION AND YOU MUST LEARN TO ACCEPT THE IMPORTANCE OF BEING ON THE SIDELINES AWAITING A PROPER ENTRY SIGNAL.

How To Handle The Numerous Chart Trading Signals

The daily, weekly, and monthly bar charts serve as a road map and are used to gain insight as to the next probable move for the market. You will be instructed in the activity of observing and recording numerous entry signals from the daily chart of the bond futures contract. You must learn to mesh the various signals into a workable trading plan. This is an individual process and will not necessarily be the same for all traders.

Basic to all trading plans, you will assume one of the three following positions:

1. You are long because a valid buy signal has been initiated and you will remain long until the profit objective has been reached, or the protective stop was elected, or a sell signal was initiated.

2. You are short because a valid sell signal has been initiated and you will remain short until the profit objective has been reached, or the protective stop was elected, or a buy signal was initiated.
3. You are flat because no new valid entry signal is present. You will stay flat until a valid entry signal appears.

Profit Taking Opportunities

There are certain market conditions that are so inviting and consistent that I have built them into the computerized mechanical trading systems that many of you are using. As a chart trader, it is important to take advantage of these situations. Actually, I have isolated these situations trading bonds from the charts over these many years.

First, a description is necessary. The official open of bond trading is recorded in the afternoon session. However, most of the trading occurs during the day session which resumes trading at 7:20 AM Chicago time. The evening session open and the resumption of trading at 7:20 AM are important time periods when profit taking opportunities may appear.

Here are the guidelines:

Assuming You Are LONG —

1. Take profits on an opening — either opening — of 4 tics or more above the previous day's high.
2. Take profits on an opening — either opening — of 10 tics or more above the previous day's close.

Assuming You Are SHORT —

1. Take profits on an opening — either opening — of 4 tics or more below the previous day's low.
2. Take profits on an opening — either opening — of 10 tics or more below the previous day's close.

Be careful of price data that you request from your broker. The official open is from the afternoon session. If you call in the morning with the idea of requesting the morning opening, you probably will receive the opening from the afternoon session.

Request the prices for the resumption of trading or better yet, ask for the opening of the Mid Am Contract. The Mid Am Contract trades only during the day session and it will have a posted opening price. The Mid Am begins trading in the morning at the same time that the regular contract resumes trading. One other problem that you will encounter is that of the split opening. The broker will usually quote an opening range such as 110-26 to 110-28. Use the first number the broker gives you. In this case, use 110-26. If the opening range had been quoted as 110-28 to 110-26, use 110-28 as the open.

One last point before moving on, SUCCESSFUL TRADING IS AN ART, it is not some scientific formula that you learn and immediately become wealthy. Rules are nothing more than guidelines to help us become successful artists. Do not fuss over an exact number. If the market gaps open and it is on the borderline of the rule for taking profits, you are going to have to make a quick decision and this is where the *"feel"* of the market, the art form, is going to guide you. The spirit of the rule is more important than the exact number in the rule.

A Trade Is A Trade Is A Trade!

Every trade has an entry point, a profit objective, and a PROTECTIVE STOP. If it does not work, the stop takes you out of the trade and you move on to the next trading signal. Being wrong with a trading signal is all part of the business. Being wrong and not using your protective stop is part of GOING OUT OF THE TRADING BUSINESS.

A trading plan provides for the number of contracts to risk on each entry signal. It is part of a well thought out process that takes into consideration the amount of risk capital available, the type of trade signal to be entered, and the amount of risk capital allotted to this particular entry signal.

IT WILL ALMOST ALWAYS END UP WITH THE TRADE SIGNALS THAT LOOK LIKE SURE WINNERS TURNING OUT TO BE LOSERS WHILE THE HARD TO TAKE SIGNALS TURN OUT TO BE THE WINNERS!

Find your comfort zone for risk and stay within this zone. If a signal looks like a sure winner, a lay - up, a money in the bank type trade - STAY WITHIN THE COMFORT ZONE. DO NOT BET THE HOUSE ON THE TRADE! Remember, the easy looking trades have a tendency to turn out to be the losers. In this business, anything can be wrong. There is no such signal as a sure thing.