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How to Hold Yourself Accountable in Your Trading

Some profits you cannot spend. They accumulate deep inside you and feed you when you are in need. They grow brighter and brighter and keep you heading down the good path in life. You cannot spend them; they are as necessary as sunshine and cool water and a caress from a loved one.

I spent a good period of my life concentrating solely on my career as a trader. I made money for myself and for the institutions I have traded for over the past 38 years, which include some of the largest funds in the world. For many years, I generated a tremendous amount in profits and those profits could be spent. I could spend them on clothes, on cars, on a new home, on traveling to new places, and doing anything I wanted to do. I could spend these profits, but they never seemed to matter much.

I recently wrote an article about a trader who e-mailed me regularly, and who lost all his capital because he refused to follow any coherent trading rules. He was a gambler, not a trader. But it saddened me that I could not help him. Four or five people who e-mail me regularly sent me messages asking if I was describing them, so I guess the lesson in that article touched quite a few people who have trouble mastering themselves. The more I think about it, the more I know deep inside that some lessons apply to all of us.

I have informally taught traders for about 25 years now. As a manager in a trading room or one of the largest traders in a multi-manager hedge fund, I often found myself helping traders younger or less experienced than myself. I never tried to make them into me, but instead, I watched them trade and looked for ways they could improve their own trading styles. And I always watched for traders who were having problems mastering themselves.

As my experience as a trader grew, I developed cues that I used to help myself when trading, little quirky affectations to help me when I was at my weakest. For example, to catch myself from reaching for a position that had a poor stop, I started writing out invisible checks in the air. The act of writing them out, though funny for others to watch, forced me to face the size of the potential stop loss before I entered the trade. I made it a part of my trading routine to always leave the trading room after I had closed a trade—winner or loser—to force myself to clear my mind of the emotions from the just-closed trade, and more importantly, to recover the focus I had just spent on that trade. Most traders who I worked with over the years just shook their heads when I wrote out checks in the air or when I got up and took a walk after each trade. But to me, they helped define my trading and kept me on track. And I passed these and other cues on to other traders around me who were learning or struggling.

About five years ago, a few friends at the Chicago Mercantile Exchange approached me and asked me if I would be willing to help some of the pit traders who were struggling making the transition from being floor traders to sitting in front of a screen, making trades based on charts and indicators. I spent a few months putting together a three-hour seminar, one that I felt would give these struggling traders some foundation materials and tools to help them find their way in the “off floor” world and also some strict money management and risk/reward guidelines, because “off floor” trading can be dangerous if you don't have strict rules in place (of course, you must follow your rules once you have them!)

These seminars were the original “Market Maps” seminars and they were an instant hit. In two years, more than 300 professional traders took the seminars and I unofficially mentored many of them for a good portion of that time, monitoring their trades and helping them with tips and cues when they ran into difficulties. The experiences with this first group of traders were priceless. These first two years of officially teaching others how to become better traders helped me crystallize what I knew, and as time went on, I began to learn more about what made me a consistently successful trader. And I learned how best to pass the teachable parts of what I do on to other traders trying to improve their trading.

One of the cues I build into the routines of all the traders I mentor is a simple corporate monthly meeting. The idea behind it is simple: Trading is a business, it's your business, treat it like a business. At the end of each month, the “shareholders” of your trading business (you!) must sit down and evaluate your results for the month:

- Did you make money for the month?
- How many trades did you actually enter this month?
- How many trades did you try to enter but ended up not being filled on your entry order?
- How much money, on average, did you risk each time you contemplated a trade, and what result did you expect in profits, on average, from these anticipated trades?
- Of the trades that you actually entered, how did the average risk compare with the average profit?
- What was your largest per contract loss?
- What was your average per contract win?
- What was your largest drawdown?
- What was your win/loss percentage?
- What was your net profits divided by your net losses?
- What was the percentage change in the value of your trading account?

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Once each trader has compiled these statistics (listed in Part 1) at the end of each month, they can look for anything that looks odd in the statistics:

- Did you have an unusually large loss relative to your average loss or average winner? If so, why? If that outlying loser was removed, how does it change your statistics?
- What caused this unusual loss, and can you change your rules to eliminate the likelihood of this large loss repeating if the same market conditions reoccur?
- Did you have an unusually large winner relative to your average loss or average winner? If so, why? If that outlying winner was removed, how does it change your statistics?
- If you had a losing month, can you isolate a type of trade that was particularly costly for you? Or a particular instrument?
- If your winning percentage was near or above 50 percent and you did not net make money, can you account for the poor win/loss size ratio? Were there any common traits you can find in the losing trades or in a group of losing trades for this month?

Once the trader has answered these questions, they have to be accountable to the shareholders going forward.

- If you lost money for the month, are there any signs that you have made progress as a trader? Please document these signs of progress.
- If you lost money for the month and you have read the documented signs of progress cited by you, the trader, is your investment in this business still warranted? Should you continue to fund a losing venture for another month? Should you continue to spend your precious resources (your time) working for this business entity?
- If you made money for the month, did you make money last month? If the answer is no and you consciously feel you should continue to fund this business venture for another month with both your time and money, begin preparing for next month's trading and keep your position size at its current level.
- If you made money for the month, did you make money last month? If the answer is yes, at what point should you consider using a sizing algorithm to carefully increase the size of the positions you are trading as your account grows in size?

Does this sound like a tremendous amount of paperwork and hard work looking at numbers? You bet it is! Too many traders think trading is simply finding something they like to buy or sell and then putting on a position. The truth is, professional traders who consistently make money know the statistics behind their past trades intimately. They know that money management and position sizing (both increasing position sizes and decreasing sizes) at the correct time can make a tremendous difference in the long-term growth of their trading account—and their incomes!

Now let me show you one of the reasons I love to help others become better traders! Here is a shot from one of my newer one-on-one mentoring student's month-end statistics…

Now let me show you one of the reasons I love to teach others to become better traders! Below is a shot from one of my newer one-on-one mentoring student's month-end statistics.

There's a real joy to teaching a struggling trader and seeing them have results like this at the end of a month. The joy I feel is not going to buy me a new car or a bigger house, but the joy I feel feeds my soul, makes me feel a little lighter. It makes me think that somewhere, someone feels I have influenced them, and helped them on their way.

Performance Report for April 09

Number of Trades		70
Total Profit	$	14,666.75
Avg. Profit per Trade	$	209.53
Winning Percentage		75.71%
Avg Winning Trade	$	323.49
Avg. Losing Trade	$	(145.78)
Profit Factor ($Wins/$Loss)		6.92
Max Drawdown	$	(350.00)

Let me share with you some of what I told this trader after we went over his statistics in detail:

- Don't expect the trading results from every month to look like this. This is a wonderful month, but the statistical results are probably too wonderful to repeat month after month.
- Even though you had a wonderful month and obviously greatly increased the value of your account, I suggest you keep your position size the same for the upcoming month (May, in this case). I tend to judge multiple months when deciding when to increase position sizing.
- We looked at his largest winner ($750 per contract) and largest loser ($225 per contract). The outliers told the same basic story as the average statistics. Taking the largest winner or loser out of the statistics didn't change things.

This particular trader just finished his ninth week in my one-on-one mentoring program, and before entering the program, he had taken quite a few expensive courses from other trading teachers or coaches, but could not find a method that he could use to trade profitably. I think there were three keys for turning his trading around and that they were finding a time frame that fit his lifestyle, an instrument that fit his personality, and the all-important third key was to learn to control his losses and only take trades that had smaller initial stop losses. Once he got over that hurdle and began to use market structure to define his stop losses, you can see what happened to his trading results!

Many of you may be wondering how unusual it is for me to see a set of monthly statistics like this from my students. Most of the traders I mentor are profitable each month, and each month, one or two of them tend to have outstanding statistics. In fact, another of my students had month-end statistics this past February that were almost identical with the trader mentioned above. And another just joined the proprietary trading room run by my partner, Dro, in downtown Chicago—he's made the leap to full-time professional trader!

These are good things happening to good people who work hard every day and know that that they have to continue to work hard, even after having wonderful trading months.

I hope this small glimpse into one of my student's month-end meetings and statistics inspires some of you. Making money consistently is possible if you work hard, master your tools, and most importantly, master yourself. I'd like to think having a good guide helps, but in all honesty, the hard work these traders do each and every day determines whether they are going to be successful.

I wish you all good trading.

Timothy Morge

timmorge@gmail.com
www.medianline.com
www.marketgeometry.com

Timothy Morge
President
MarketGeometrics, and Blackthorne Capital, Inc.
1870 Diamond Creek Lane
Aurora, IL 60504-3441
630/236-3441
Fax: 630/236-3448
Web sites: www.marketgeometry.com or www.medianline.com