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What I learnt losing £60,000 my first year as a full-time trader

During my first year as a local (independent trader) on the floor of LIFFE, I bought and sold 8804 FTSE futures contracts, about 40 contracts per day on average. The result was a loss of £61,620 or -£267 per trading day. I was profitable on 55% of days with an average gain of £1009, my average losing day was -£1780. My biggest one day gain was £7730 and my biggest loss -£12,426.

As you can probably imagine, this was a difficult time for me. I was trying to work out how to make money consistently. It was the consistency that seemed so hard to find. As you can see I was having a regular experience of making money, what was killing me were my losses. It seemed that every time I got ahead by £5-6000 over a period of a week or two, I would lose it all and a few thousand more in the space of a couple of days.

At the time I was too unhappy with my performance to be willing to spend any time analysing my results. If I had I would have discovered that during this period all I needed to do to go from a loss of £61,620 to a small profit would have been to avoid just 10 trading days. Those 10 days cost me a total of £69,169!

At the end of this period I was so frustrated, fed up and stuck that I decided to quit trading and return to a more secure career. It only took me a few weeks to abandon this plan and return to trading. I felt sure that I had the raw talent to become a consistently successful trader, what I needed, I reasoned, was some support. Support to stop me having the huge losing days that were crippling me financially.

I approached a firm I knew that backed traders on the floor and they agreed to back me with £20,000 of trading capital. We would split profits 60:40 and I was set an initial daily loss limit of £500. If I hit my £500 limit the firm's floor manager would come and tell me to go home. The third day trading I lost about £3500 and nothing happened, no one came to ask me to stop trading. I felt very foolish, but continued to trade for the remainder of the week while avoiding any contact with the floor manager. The following Monday (the week's losses had totaled about £5000) I got a message to meet with the director with whom I had made the agreement (it transpired he had been away the previous week). I was sure that he was going to say that the deal was off. Instead, to my surprise, he told me how important it was that he could trust me, he needed to know that when the market was volatile he could trust me not to be racking up big losses. He suggested that I start afresh. Needless to say I was both relieved and grateful. So I went back to the trading pit that morning with the determined intention to not lose more than £500.

The next two weeks turned out to be one of the toughest periods of my trading career and one of the most rewarding. Stopping when I was down was hard. I realised that what had been at the root of my large losses was my inability to accept losing at all. To me losing was unacceptable. Such was my intolerance for loss that I lost for ten consecutive days. But as the days progressed, even though I continued to lose £500 a day, I found my mood lifting. I actually started to feel OK about losing as long as it was within my limit.

At the end of this 10-day period of losses a seeming miracle happened; I started to make money. My target was to get to +£1000 and then not give back more than 20% of my gain. So when I had a profitable day I was making between £800 and £2000, for an average of about £1200. Not only did I start to make money, I did so for 15 days in a row, three entire weeks without a loss.

This marked the beginning of a new era of trading for me. In retrospect, I believe that I had been trading scared, scared that I was really a loser. The two weeks of rigidly sticking to my loss limit caused me to reevaluate myself. I started to feel good about myself for sticking to my limit. Before it was bad if I lost money, now it was only bad if I lost more than my limit. Before, I never knew whether I was going to make £1000 or lose £5000; now I knew that the worst case was a loss of £500 and that was OK. I started to see that sticking to my trading limits was a sign of strength and my confidence started to rise.

Looking back at my first year's losing streak, if I had restricted my losing days to -£500 my loss of £61,620 would have turned into a profit of £83,525. Not only that, I think that had I been sticking to a loss limit during that period, my confidence would have been that much greater and my percentage of profitable days would also have been higher.

Scared money never wins, as the saying goes. If we are scared what are we scared of?

"Our deepest fear is not that we are inadequate. Our deepest fear is that we are powerful beyond measure. It is our light, not our darkness that most frightens us. We ask ourselves: "Who am I to be brilliant, gorgeous, talented, fabulous?" Actually, who are we not to be? You are a child of God. Your playing small doesn't serve the world. There's nothing enlightening about shrinking so that other people won't feel insecure around you. We are all meant to shine, as children do. We were born to make manifest the glory of God that is within us. It's not just in some of us; it's in everyone. And as we let our own light shine, we unconsciously give other people permission to do the same. As we're liberated from our own fear, our presence automatically liberates others." Nelson Mandela

Whatever is at the root of our fear, in order to become consistently successful traders, we have to overcome it by developing trust in ourselves, trust that we will always act in our own best interest. When we trade fearfully, we undermine ourselves and end up taking the very action that confirms our fear. The question is how to develop an unshakeable trust in ourselves?

We develop trust in others through repeated experience of them acting in ways that inspire trust. In the same way we develop trust in ourselves as traders by building up a history of action that supports our goal to become consistently successful traders. The more frequently we adhere to our own trading plan and limits the greater our self-trust. Now this sounds like a catch 22 situation, if you find like I did that you cannot help yourself, how do you start to develop self-trust through right action?

In a way I was lucky, my back was against the wall, I knew that if I broke my limit I would be out. So I had to stick to my limit and in doing so I gave myself the opportunity to confront and finally reject my fear of being a loser. To go from being a net losing trader to a consistently profitable one, we need to set ourselves achievable targets of behavior. My problem was allowing losing days to turn into huge losing days, so to set myself the objective of stopping trading for the day when I was down £500 was appropriate for me. For others the primary problem can be the resistance to taking a trade when a signal comes up, be it intuitive or mechanical. An appropriate exercise would be to take a simple mechanical trading system (it does not have to be much good, break even would do) and set the goal of taking the next 10 signals without hesitation, regardless of how you feel. We need to build up our trading skills one at a time, when we are confident we can cut our losses we can move onto execution, then we can work on holding on to profitable trades etc. Tennis stars don't become stars just through competition; they hone their skills one by one on the practice court and they continue to practice throughout their careers. As traders we need to identify the individual skills we need to develop and focus on them one by one. Someone new to tennis does not expect to go out and win competitions straight away, they know they will have to spend a fair amount of time practicing and learning first. Short term trading, like tennis, is skill based, and those skills can be identified, practiced and mastered.

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