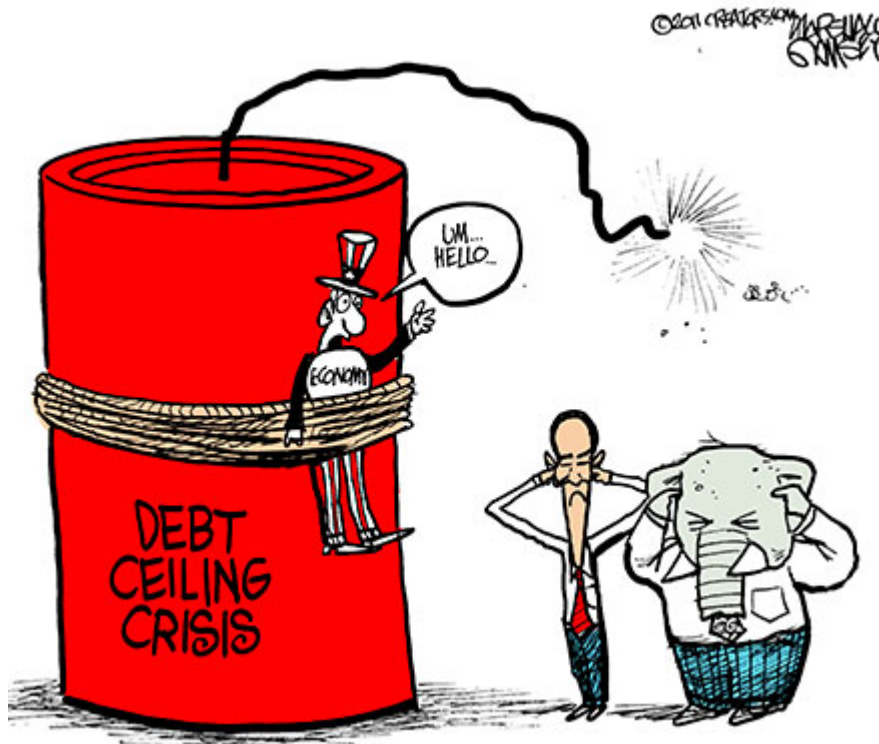


A \$60,000 loss -- Who needs a game plan right?



There's a reason in trading, one of the most popular mantras is "Big wins and small losses," or "Cut your losses and let your winners ride." It's a simple saying that pretty much notes, "Live to see another day." I'll never forget one of my biggest losers that taught me some of the most valuable lessons trading can teach you. They say you never learn a lesson like when you lose money, and learn I did. This one almost took me out of the business. It was the main reason my partner and I started *Trading Experts*.

Let's take a step back and see just how fucked I was that I surmounted a loss equal to a brand new Porsche 911. It's the summer of 2011 and the hot topic of the time was the Debt Ceiling Crisis. If you're not familiar, I'll very briefly summarize; the general public thought the world was going to end if the debt ceiling was not raised. In reality, it's been an arbitrary number our Government has no chance of paying off any time soon. They're going to keep printing and spending money regardless. Even knowing this, CNBC was running their infamous "MARKETS IN TURMOIL!" fear-mongering special. It was the popular subject of all the news stations. It all came down to a congressional vote which didn't pass. Now leading up to this, I was sure to get flat all my positions to avoid the knee jerk random reaction that was surely to follow in the markets. (Shout out to Brexit for a more recent example)

Initially, the market got absolutely smoked. The reaction, coupled with the financial crisis in our rearview mirror, was that the world was ending. During the month of August 2011, the

S&P dropped 200 points from 1300 to 1100. Looking back on the chart, just a small blip, but back then it was absolute mayhem. I began listening to all the fear mongers, thinking this is my chance to hit the big one! The S&P is going to ZERO and I'm gonna ride it all the way down!

Being inexperienced, I followed into the fear mongers' trap and began to short every bounce. I had absolutely no plan, just that I *had* to be right.

At this point I feel invincible, I was able to lock in profits and get flat prior to the market taking a 200 point nose dive, a 15% drop in about two weeks. It can take the overall market 18 months to gain 15%, the same drop took less than 20 trading days. Remember the market is the general public, no one panics during a practice fire drill, but when it's the real thing, everyone goes nuts.

Back to the trades, so I avoid the pain of losing 15% and want to start shorting, being a trader I want the best bang for my buck, so I find leverage 3x short etfs. Not only that, I aim for the weakest sectors, so naturally I gravitated to the big banks since they're to blame for the housing bubble. I figure why not short the most hated sector with 3x leveraged etfs. Now I'll make 30% when this sector pulls in 10%. No brainer right?

So first time around I build into a 500 share short position and cover as the market pulls in and lock in a \$2,000 gain in 3 days. A breeze.



Mind you, this was much earlier in my career, when I was a much more brash young man. Over time, the market has a funny way of humbling you. You don't spike the ball as much on your big winners because you know that may lead to forming bad habits such as carelessness how you allocate your capital (aka dumb losses). Before I learned these lessons, I thought I was the big-swinging-dick who couldn't be wrong. *"That was the easiest \$2000 bucks anyones made in history!"* I'd exclaim. I'd see some older traders roll their eyes and I would chalk it up to them being jealous. Later I would look back and wish I had taken their dirty looks as a sign I was being too cocky.

Next time the market bounces, I double my position. Double down. Additionally, I begin shorting the S&P. Again, with the 3x leveraged etf. A few days later and the market again flushed. I close out \$6,000 in gains. KEEP IT GOING! In a week's time of this market volatility I've locked in more profits than my entire first year of profitable trading. Now I'm feeling like the absolute man. *"It's too easy!"* I gloat.

There was a very wise, experienced trader on the floor at the time, Wilson. He mostly kept to himself but was always observing, as if he were assessing everyone's behavior at all times, gathering information. He was in his 60's and had this full head of completely silver hair. He had been in the markets for upwards of 40 years. He had traded more days than I'd been alive. He was an absolute legend on the floor. When he speaks, which was few and far between, you listen.

As I passed Wilson's desk toward the end of the day, shit-eating grin from ear to ear on my face, I hear him say, *"Young man,"* and I looked over.

He was talking to me. "Young man, you're going too fast. You're going to learn the hard way it's not that easy."

I told him, "I appreciate the advice but I'm confident about this one," brushing him off.

Now it's time to load the boat, third time's a charm. This time, I have the most conviction it's going to work, I start telling my friends about this home run trade that I will retire from. So now I short across the board:

*1000 shares 3x leveraged Banks short (FAZ)
1000 shares 3x leveraged S&P short (SPXU)
1000 shares 3x leveraged NASDAQ short (SQQQ)
1000 shares 3x leveraged Russell 2000 short (TZA)*

My plan is as simple as short into resistance, cover into support and lock in profits. The problem was that I didn't plan for things to go wrong; no stop loss, no out. In my head, as is with most newbies, is the idea that for **every** point the SPY falls, I'll net \$4,000. I was completely

focused on the end goal, without putting any thought into all the different possible outcomes. Now this 3rd time is going to be the BIG one, I'm not going to cover when the SPY (S&P 500 Futures) falls back down from 130 to 110. I'm going to hold onto my whole position because *this time* it's going to 90. \$100,000 plus profit and then a long vacation.

At this time, Wilson's words of wisdom began to ring in my head a bit. "It's not that easy." He was talking about the grind of trading. There are no overnight successes. It's a skill just like any other job, and to be great, it takes repetition along with constant learning and improving. Being young and naive, again, I brush it off.

So I have these 4 positions on 1,000 shares each, and the market starts to slightly pull in each day, in my favor. However, it's not a panic-like break down, more of a slow, methodical fall, but not as much as the previous two times. The S&P Future's (SPY'S) at 131 the day I get short; day 2 - 126; day 3 - 119. I still have some green on the screen, except its much smaller than usual. (Now, I would consider the possibility of buyers starting to come in)

Day 4, the market gaps up above 130 and is off to the races! The game just severely changed! Now I'm starting to get hurt, I couldn't even describe the pit in my stomach. But you know what, I already locked in \$8,000, I'll let it ride against me, I *know* I'm right!

The market decides to rally 100 points in my face and I start to add to my losing position around 1400, which is the first time I learned how dumb it is to add to a loser. The market starts to stall around 1400 and pull back into 1300. Now I really feel like a big dog. Faced with a big loss, I added to the trade and imposed my will upon the market. TERRIBLE lesson.

Except there is a peculiar thing about the market. It always has a funny way of humbling you when you feel invincible. You can't always be right even if you think that's the case. I was so focused on being *the man* I had not thought about the basics like support and resistance. The entire trade I was shorting at resistance and taking profit into support, great trading, **when you have a plan.**

Generally, when a stock breaks through resistance, it will re-test this level and have it become support. The market gives me one last chance to save face and not get my face ripped off. It pulls in to 1300 (previous resistance that has now turned into support), but I am so oblivious to this fact, I'm still dreaming of my \$100,000 payday. Was I going to get out of this trade break even? I've been through too much pain for that! I was worried I'd look stupid, and you know what happened? The market made me look stupid.

The rally of all rally's proceeded this gap down. The S&P blew through 1400, 1500, 1600 and my dreams of a \$100k pay day had very quickly developed into a crippling loss. I was sick to my stomach when I finally had to cut my loss. I rotted in the position, trying to talk myself into being right, finding every bearish article I could and reading it as gospel. I had no stop-loss and no real plan in the case I was wrong, and oh, I was wrong.



There were so many indicators in this trade telling me I was wrong but I was too stubborn to pay attention to them. They say the best lessons are always learned losing money, and this is the trade I'll never forget. If only I had a real mentor to tell me how headstrong I was being, I would have saved a lot of money.

"The market can stay irrational longer than you can stay solvent."

John Maynard Keynes

Now, whenever I feel myself getting too excited about a trade that's going my way, I think about Old Man Wilson's advice. To be a successful trader, you have to be as emotionless as possible. You can't marry a trade, you'll never end up on the right side of it. This game takes patience coupled with the utmost discipline. There are no overnight successes, it's hard work every single day at improving your skill set. This can't be stressed enough. Though I lost a bunch of money in this devastating loss, it's taught me life long lessons, and that's priceless. I never traded the same after this humbling experience. I wasn't the stereotypical abrasive Wall Street trader. I made sure to become much more calculated and risk-averse. It's about longevity in this business.

Since this trade, I've had thousands fail, except the difference is that as a professional trader we focus on big wins and small losses. You have to be able to admit when you're wrong, or else your tenure in this business will be a short one. The new trader loses big and cuts his winner's too quickly until he is properly trained. Even when properly trained, you need to constantly adapt your skillset and review every trade as you never stop learning. Trading is all

about evolving and constantly learning while adjusting gameplans on the regular. If you ever meet a trader who says he's done learning or knows everything, he's full of shit.