<u>Where's this fucking thing going to open?!</u>

"Where's this fucking thing going to open?! Down $5 bucks, down $10?!" I panicked. It was late April in 2015, I was coming off my first $10k week, I felt like Jesse Livermore (If you don't know who that is, google him this second). I began swinging heavier positions in riskier names because I was getting addicted to feeling like the top dog on the desk. There are a lot of ego's on a trading floor, arguably more-so than any other business. On our desk in particular, we had a whole slew of BSD's like Jack, Mr. X, Wrench and my personal mentor, whom we'll call *Beast* because he is a fucking *beast*. After years of lessons and going through the constant roller coaster of emotions, I've learned that cockiness and arrogance just isn't worth it. You will never read in a book about the pit you'll feel in your stomach when a loss is too great. Ask the top fund managers around, the biggest aspect of being a successful trader is risk management.

I was finally earning respect on the floor after putting up a 10-bagger (aka $10k week). Word spreads quickly on the floor and even Wilson was impressed with how quickly I was improving. However, the $10k week wasn't enough. Greed is kicking in and I have my sights set on a $40k month. I wanted to squeeze out *more*.

Heading into a weekend, it's wise for an active trader to take some risk off the table if you're swinging a heavy position. So much unexpected news can come out over the weekend, you don't want to catch yourself on the wrong side of it Monday morning. Let me tell you about when I did and quickly went from top-dog to dog-shit.

I killed it that week, felt like everything I bought would rip. I was in the zone, everything was starting to click. Going into the weekend, I had a very tough decision to make. I was holding 400 shares of Amazon from $382 with $380 being my stop, risking about $800:

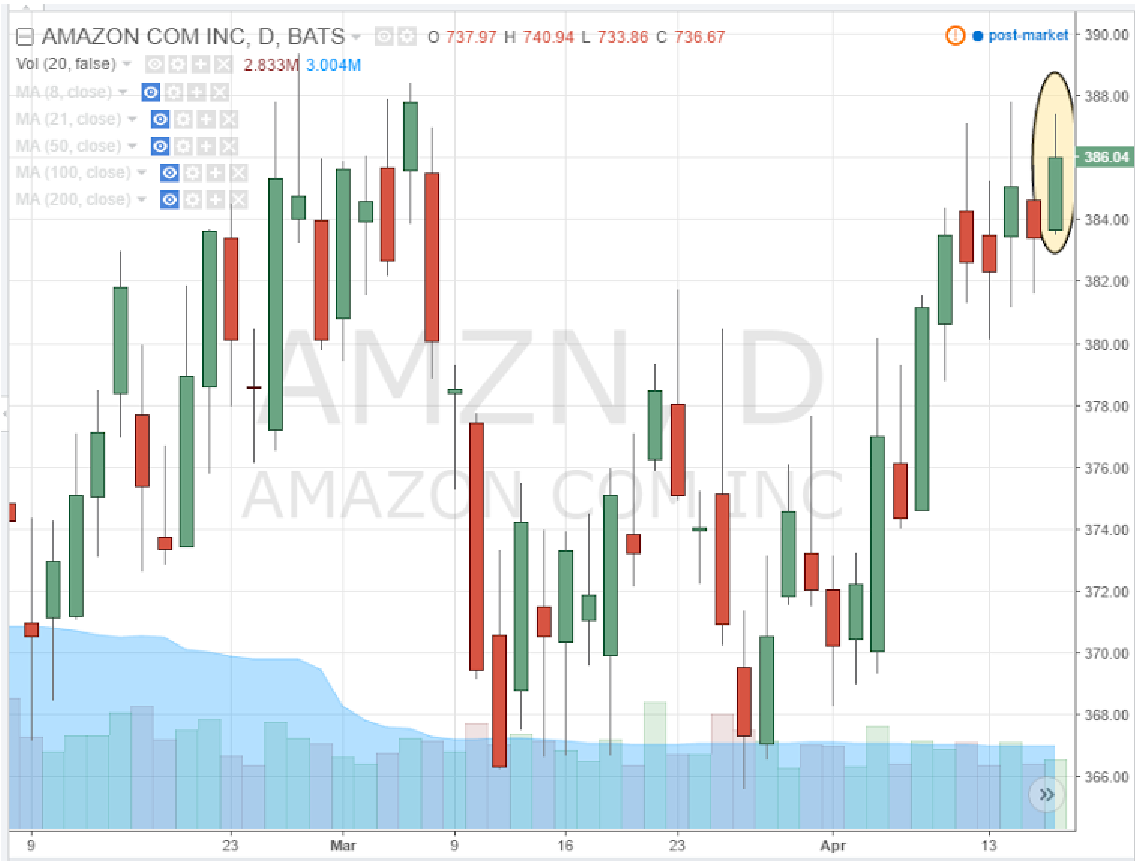
$382 entry price - $380 stop = $2 risk

$2 risk X 400 shares = $800 risk

This was a couple months after Amazon started toying with the public that it wanted to have drones deliver packages within hours of ordering, so Amazon was a hot stock.

This news coupled with the bull flag sounded like a home run in the making. The top of the bull flag was $388 so my thinking is that if I can hold on and catch the breakout, Amazon could be north of $400. If I held my 400 shares for an $18 gain, I’d be looking at a $7200 gain on $800 risk, a 9:1 risk/reward!

BUT, my rule has always been, clean it up before the weekend. The name of the game is risk management. Cut down all of your positions, you don't want that much overnight risk. I was on such a hot-streak though, how could I not let it ride? I'm currently up just over $2000 on the trade so I'm already at a favorable risk-reward, why not take some risk off the table? Why not book some profit and make it a risk-free trade? Because I was too focused on the pay-day, selling it at $400+ and not thinking about risk management.



(The circled candle is how the AMZN daily candle closed that Friday)

I remember that weekend as one of the better weekends I've had. I was crushing it trading, just had a big pay day, and was gaining more and more respect from my colleagues. My mentor Beast was finally taking my trade ideas more seriously. When you have a mentor in trading, they're like a father you're always trying to impress. For most of my career leading up to this, my ideas had been for the most part brushed off and not taken as seriously as some of the more senior traders. But it was all changing, and I was on top of the world. I slacked off that weekend and didn't put in my usual detailed chart work on Sunday as I knew I already had Amazon waiting to explode $10+ on Monday, so I didn't have that killer instinct. It's about to be an easy week ahead, another week of counting cash.

I wake up Monday morning, check my phone, and I see a Marketwatch notification I'll never forget:

BREAKING: FAA SHUTS DOWN AMAZON'S HOPES OF DRONE DELIVERY

Holy. Fuck. Out of NOWHERE, they drop this news. Earlier, Amazon had written a letter to the FAA saying their strict laws regarding commercial use of drones is standing in the way of innovation. (http://fortune.com/2015/04/29/drones-amazon-letter-faa/)

The Federal Aviation Administration (FAA) came out with a huge press release Sunday night saying they did not intend to change their stance on drones in any shape or form.

This should send Amazon stock into a frenzy as the rumor of their drone delivery had been propping up the stock the entire quarter. My overjoyed weekend turned into a hellish Monday fast. I check my phone to see where the bids are in premarket trading, Down $5. There goes my $2k gain in a split second. Great.

By the time I get into the office, news spread I was very long Amazon. Traders generally know their colleagues trading-size, so when people heard I had $160,000 of Amazon stock over the weekend with this negative news out, everyone had something to say.

Wrench, the snotty, entitled guy who walked around with daddy's money snickered, "Trading a little too big for your britches, huh?" I told him to fuck off and kept it moving.

Jack, the old-school, stereotypical office enforcer was slapping his mini baseball bat as usual, "It's not all rainbows and butterflies is it?!" Thanks for the help, chief.

Beast, my mentor, sat me down and offered some advice, "In this business, sometimes you're on top and sometimes you're not. But, you can't put yourself in a position to get hurt. In a downturn, you've seen it, 50% of the office disappears as these beta-traders* with no discipline get wiped out. I agree that when you're hot you push it a bit, but you know the dangers of holding onto that much stock over a weekend, in Amazon no less!" I told him I appreciated the wise words and I wouldn't forget that lesson.

(*Beta-traders are known as traders who kill it when the times are great, just getting long any setup in a high-beta name and having success. During choppy times or bear markets, beta-traders are generally the first to be wiped out, losing all their trading capital, aka blowing up their account.)

It's around 9:15 now and there starts to be more active pre-market trading. When a position gaps against you, you never want to get out in the pre-market. Pre-market trading is characterized by light volumes and huge spreads. If you get out of a trade because it gaps down on you pre-market, then it rips off the open, you're gonna feel like a jackass because it was just a few orders that caused you to sell. So I walk in and it's now down $5.50 with bids at $379.50 and offers at $383. (Remember, my original sell-stop was $380 and I walked in Monday to a price below that)

(The difference in the bid-ask spread in this high priced, high-beta stock on 400 shares was a $1200 difference. In a stock like Bank of America, BAC, a low-beta and relatively low priced stock the spread might be $.05. So on 400 shares, the difference is only $20)

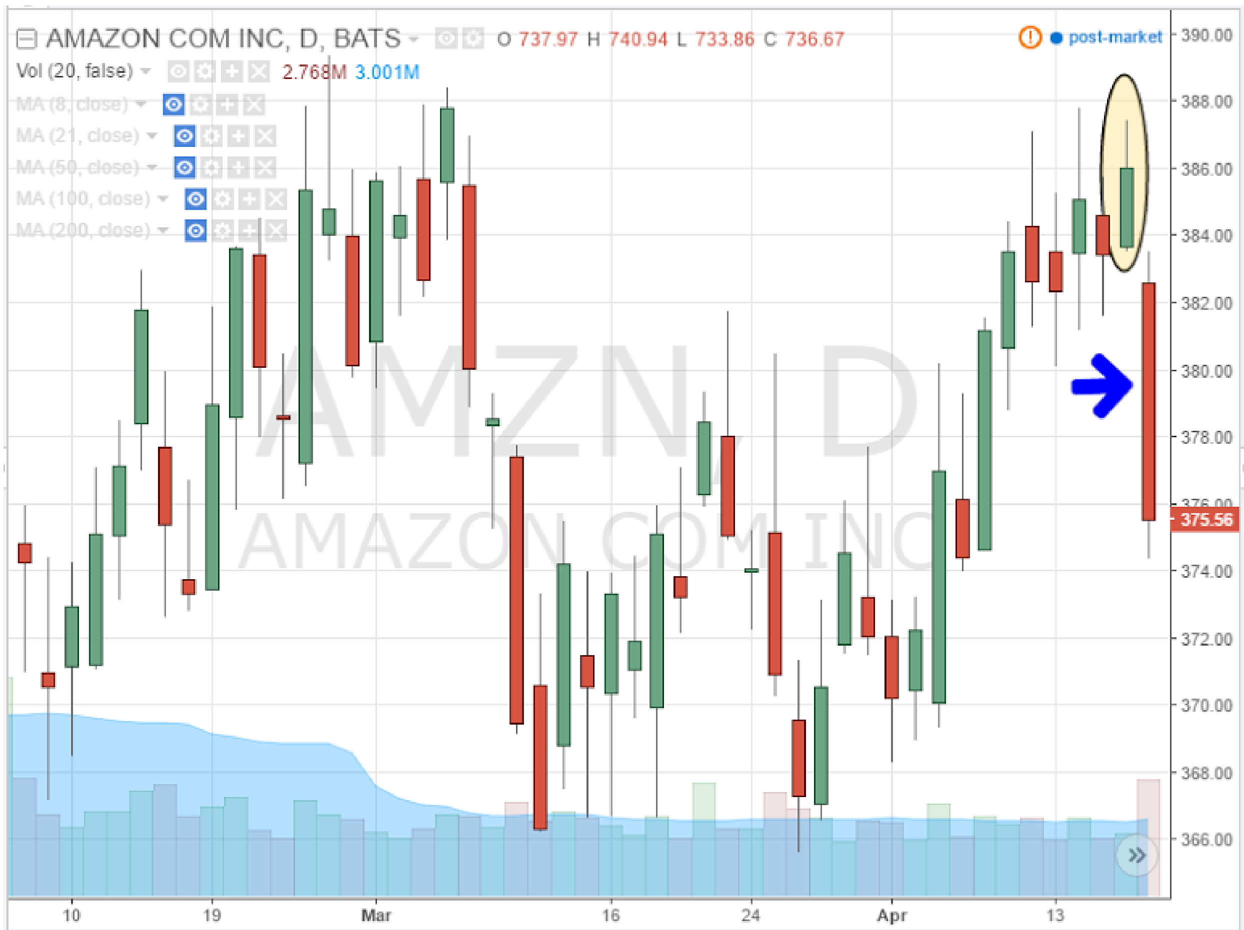
You can see why it's not ideal getting out premarket with such a costly spread.

All of a sudden, a seller comes in just slapping down bids, and the price began to drop faster than a penny off the top of the Empire State Building. "Where's this fucking thing going to open?! Down $5 bucks? 10?!" The general rule of thumb when swinging a position and it gaps against you, is to wait for the first 15 minute candle to close and put your stop at the low, in hopes of salvaging the trade.

Amazon opens immediately down $8 and I can't take the pain and just immediately puke up half my position at $378, 200 shares, for a loss of $800. I was not following any sort of rules other than letting fear take control of my trading. Remember, my original stop was $380 but it opened up below, so I never had a chance of getting out there. I lost $800 on those 200 shares alone, when my gameplan was to risk that on the entire position of 400 shares. I'm going to treat these 200 shares right, wait for the 15 minute candle to close and maybe I'll get lucky. (*You never want to be hoping you get lucky, more often than not it ends up very bad)

The 15 minute candle makes a low at $376.50 so I put my stop below there. It gives me a glimmer of hope as it rallies the next 10 minutes, only to shatter my dreams and flush through $376.50 leaving me with a substantially greater than expected loss. On a position I went into the weekend +$2000, I finished Monday -$3000, a quick $5000 swing. I had given up 50% of my profits from my best week in a day.

Looking back, if I had more experience, I would have sold half my position (200 shares) that Friday. I would have booked $1000 and more than covered my risk in the trade. Monday still would not have been fun but I would have protected my profits and had a break even trade instead of losing $3,000. Then again, if I had done that, I wouldn't have been able to tell you this story!



(The arrow candle is that following Monday's daily candle)

They say you never learn a lesson like losing money. Believe me, this one will stick with me for a while. It was more than the money lost that Monday, it was about how quickly my hard work and smart executions from the week prior were wiped out. If you trade like a loose cannon, that's going to happen more and more until it takes you out for good.

I always think back to Beast's words noting the importance of risk-management. You often hear, the most important part of your job on Wall Street is to keep your job. Starting to trade is easy, but surviving day-in and day-out maintaining the utmost discipline is the hard part. Being cocky can be your greatest downfall and having an ego will only help you lose money.

Be smart. Game plan. Have patience. Manage your risk. It’s the only way to survive.