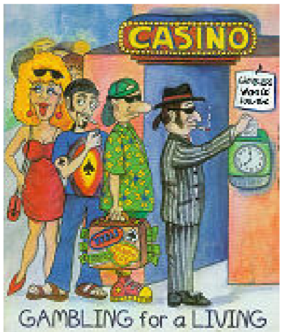
Professional Gamblers at Work-- Interview with the Bright Brothers



PROFESSIONAL GAMBLERS AT WORK : CONTENTS

Meet the Bright Brothers: Card Counters Turned Stock Market Billionaires

By Arnold Snyder
(From *Blackjack Forum* Volume XX #4, Winter 2000)

[In the Summer 2000 *Blackjack Forum,* we ran a small advertisement for Bright Trading, a Las Vegas stock trading firm specifically seeking card counters to become professional day traders. Many readers asked me what I knew about this company, and my answer was zilch.

Day trading is considered to be among the more high-risk (if not the most high-risk) methods of attempting to make money in the stock market. Then again, as investment opportunities go, counting cards at casino blackjack is not exactly considered "money in the bank." I figured *Blackjack Forum* readers might be interested in Bright Trading, which in its small *Blackjack Forum* ad stated it was "started by a professional card counter." I also wondered if these guys were on the level.

Shortly thereafter, I learned that Don Bright writes a regular Q/A column in *Stocks and Commodities* magazine. His older brother, Bob, is the CEO of Bright Trading, and was the card counter/founder of the company.

On the Bright Trading web site (www.stocktrading.com), I learned that they had some three dozen offices throughout the country. It appeared to be a fairly large firm, with some 350 traders, well-known and reputable within the industry.

I visited their Las Vegas offices personally. Bob Bright agreed to be interviewed for *Blackjack Forum*. (Some technical questions were answered by Don, but all responses to my questions are simply identified as by "Bright.") I was surprised at the size of their Las Vegas operation. I saw some two dozen traders in various large rooms on two different floors, watching a hundred different computer screens. –Arnold Snyder]

Bob Bright's Start as a Card Counter

BJF: Were you with any investment companies prior to starting your own?

Bright: No. I played blackjack in the 70s, on my own. I didn't like the team action. Ken Uston spotted me one night and watched me for over two hours. I didn't know who he was. All I did know was there was a man, dressed in a suit, standing behind me for over two hours.

I toned my bets down, and then I got up from the table, walked over to the cage and cashed out. When I turned around I saw him standing there. I thought he was with the casino, and was probably going to ask me not to play. I was certainly surprised when he showed me his I.D.

He said, "That's the best play I've ever seen as a lone wolf." He asked me if I would teach him how to play as a lone wolf, because all he had going was the teams. I joined his team for a few weeks. Ken showed me everything about his team play, and I showed him how to play lone wolf style.

That was the last association I ever had with him. In 1978, my reputation had grown to the point where casinos around the world were barring me. The Horseshoe, in Las Vegas, finally barred me. They had always maintained a position where they welcomed any and all action. Many casinos do not bar counters; they are inclined to deal the proficient player worse and worse games by shuffling frequently.

After being turned away from a number of casinos, I saw the handwriting on the wall. I looked around for another game where I might have an edge. That's when I joined the Pacific Stock Exchange.

BJF: This is after Uston had been long gone?

Bright: Yes, this is after he left the exchange. Actually, he was at the Exchange as a bureaucrat, not a trader. He was in telecommunications.

Eventually, he left that job and headed up a blackjack team that played not only in the United States, but in various casinos around the world. From 1978 until 1990, I basically traded the market and played blackjack on the side. I made more money in the market than until you open a position. Then you're a risk manager. You're not "investing." You're in for a short term.

You see derivatives starting to move, or some type of indicator that you're watching, and it gives you a good idea that the stock that you're watching will probably move in a certain direction. So, you jump in. When those indicators or other things tell you it's too risky to hang onto the position, you get out. That could be 15 seconds later or hours later.

BJF: I'm an investment dummy. What are "derivatives?"

Bright: Options and futures.

The Bright Trading System

BJF: So you're not watching the stock price itself, but you're watching the options and futures?

Bright: You're watching various indicators including the index values. Say you see crude oil, which is a future. If it starts to go up, it may tell you that the drillers have a chance of—in just a few minutes—going up, or big oil companies.

If you're watching the British pound and it's strengthening, the drug companies might do well because most drug companies are somewhat more related to the British pound than they are to the U.S. dollar. You're watching the S&P 500, which represents the top companies in the country. Everything relates to the other side, too, because we trade both sides.

If the futures start to go up and the stocks haven't moved yet, it's highly likely they're going to pull the stocks up with them. It just means the big institutional firms are in there buying the futures ahead of their institutional orders. And we just get in before they've placed those institutional orders to buy some stock in whatever direction they are going. Those are the types of indicators that tell us when to get in or when to get out.

BJF: In other words, you're watching an indicator that has historically shown that when this indicator moves this way, this stock, or this type of stock, moves up or down, and you execute a sale.

Bright: That's right.

BJF: So your ability as a day trader would have to do with your ability to isolate the indicators that actually are indicating something.

Bright: And they change from day to day. An indicator telling you one thing one day might be different the next day. So, that's why you have to be flexible in the market. The market requires focus, flexibility, and discipline. Playing cards for a living requires focus and discipline.

BJF: Yes, but generally speaking, if the count goes up at blackjack, you would assume you have an advantage on the next round because you can stick it into a computer and run a simulation, and every simulation is going to come up showing the same thing. You may win or lose the hand, but you do have the advantage.

Bright: There is a period when certain indicators will tell you to jump in and you will probably make money. Then at some point in time, it could be three days later or three months later, those indicators become less and less valuable. They don't work as well because as more day traders see the indicators that are working, they jump in and eventually those indicators are no longer viable. You have to constantly stay ahead of the curve.

BJF: So, you have to stay ahead of the other day traders who are also looking at the same indicators.

Bright: Right.

BJF: In a sense, there's more of a similarity with sports betting or betting on horses where your success depends on staying ahead of the public.

Bright: To a degree. The only difference is we have the edge over the rest of the public because we have direct access and faster data feeds. There are 7500 professional day traders. There are also 13 million online day traders. 13 million traders are always going to be behind the curve on the professionals.

BJF: And these 13 million are people sitting at their home computers?

Bright: Sitting at their home or office and trading occasionally.

BJF: Trying to predict from the same indicators?

Bright: When I say 13 million online traders, those are all electronic traders. There are probably another 30 million that have a brokerage account somewhere that haven't gone online yet, but they will.

I did with blackjack because in the market, you don't have to tone your bets down. If you've got something good, you just go with it.

Bob Bright on the Switch to the Stock Market

BJF: When you started playing the market were you just doing this completely on your own money?

Bright: Yes.

BJF: Did you have a lot of money?

Bright: No. I moved to town with $3000 in my pocket and I left with somewhat more than that. I was able to put $50,000 in the market. That was all I needed as a market maker to start with.

As a market maker, you get extremely high leverage. As a market maker on the options floor, options are leverage instruments of their own. Then, as a professional market maker on the floor, you get even more leverage. So, with that I was able to get in with $50,000 front money and it grew from there. I retired from the market in '87 and didn't get back in until '92.

BJF: How would you compare day trading to card counting?

Bright: Both take focus and discipline. In the market, you need to be a little more flexible than you do in card counting, but focus and discipline are the two key ingredients, and understanding numbers is the means of access for both of them, especially with derivative products.

We use various kinds of derivative products to give us indicators as to entry points and exit points in the market; just like you might use a count system to make your entry points into a game of blackjack. High count, you know the edge is in your favor, you jump in. With derivative trading in a certain manner, we have the same feel in the market. We jump in when they're giving us a so-called high count.

Most good day traders will make money on 70 or 80 percent of their trades. Just imagine playing blackjack and only making a bet when you have a count in your favor. It doesn't mean you win every bet, but you're going to win more than you lose.

BJF: In day trading, is what you're doing purely mathematical, or are there psychological factors also?

Bright: It's not mathematically "by the numbers." You're a day trader

And then there are a hundred and some million investors in the market mainly through pension funds, 401Ks, etc. As day traders, we make our money largely from trading against the online traders at home and trading against the mutual funds and pension accounts. You can imagine a Dreyfus or a Fidelity, they want to go in there and buy 100,000 shares. They don't care about a quarter point. They say, "Buy it around 90, 91." We do care about a quarter point. If we make a quarter point once a day, it's $100,000 a year.

BJF: These funds move slowly?

Bright: They move very slowly. A good example—institutional brokers tend to hear every morning, from their own firm's squawk box, what stocks they want to tout that day. For example, they might recommend IBM. The broker would call the bank trust department and say, "Our firm is recommending IBM." They'd say, "Fine. We'll talk about it at our next meeting," which might be Wednesday. On Wednesday they approve it and on Thursday they call back and say, "Yeah, go ahead and buy us 100,000 shares."

So, the timing could be days for them to make decisions, and they're not as interested in an eighth or a quarter point or so. We will go in and then jump right back out if it doesn't look like we're right; or if it's not going to move like we anticipated it would. Our cost is so much lower than what the funds pay. As professional traders, we have the lowest costs around. You couldn't even get close to the cost as a public customer or as a mutual fund if you were trying to get soft dollars back.

BJF: I would imagine most of the 13 million day traders out there sitting at home at their PCs are not hugely bankrolled.

Bright: No, and they're not sitting there all the time. These are online traders. How many of those 13 million are actively sitting there wanting to trade that day? Maybe 10 million trade once a month. So, there might be three million that periodically will look at their terminal during the day at work or at home and make some trades. Probably not more than a million are sitting there really thinking they're going to make a living out of it.

BJF: That's still a pretty sizable number of people. Three million people that would be doing this fairly seriously. The majority of these would be doing this "lone wolf" style though, right? They would be on their own using their own money, whatever resources they themselves have. Would the majority of these probably be under-bankrolled, in your opinion?

Bright: For trying to day trade, yes, they would be. Most of them don't understand the risk involved in day trading and the capital that it takes to do it. The market has made a lot of smart online traders in the last few years. It's been pretty straight up until this year. Thirty percent a year for three years running. A lot of people thought they were professionals because they made money. They were called swing traders. They buy it until it swings their way. And if it doesn't work that day, well, they just hold onto it for a couple of weeks, and as long as the market would go up, they made their money.

Professional day traders understand the risk involved. They understand how you can really get hurt if you're stubborn, and they understand that you need to do some size with a small profit potential to make the real money. Just like blackjack, you'd rather play 500, 1000, 2000 dollar hands than the ten dollar hands. Same way with professional traders. They want to trade 2-, 3-, 4-, 5000 shares at a time, not 200 shares at a time.

BJF: Technically, though, a person could do 100, 200 shares at a time.

Bright: We recommend to our new traders that they do 100 shares at a time until they get comfortable with that. Then they go to 200.

BJF: But if you're trading 100-200 shares at a time, is it unlikely that you're going to be able to make any sizable amount of money?

The Bright Brothers Trading Room

Bright: At 100 shares a crack, you're probably not even going to pay the overhead.

BJF: In other words, it's like playing nickel blackjack. You won't make your travel expenses even if you have an advantage. So how much of a bankroll does a person need to have a chance at making a living from day trading himself? Let's say he wants to do it by himself and he's very smart, understands the indicators, really follows everything, watches everything. How much money does he need behind himself?

Bright: And he's going to be a lone wolf trader at home? He probably couldn't do it, no matter how much money he had, long term. Even if he had a million dollars to trade with, he's not going to make the money he would if he was in a professional environment.

BJF: In other words, it's better to be in a group situation where there are a lot of people watching a lot of indicators, sharing information? Is it similar to a blackjack team?

Bright: Right. I didn't want to join a blackjack team, but in a trading environment, it's much better to have 20 or 30 pairs of eyes looking out for you than doing it all by yourself. If you're trading General Motors, you may miss that trade in Ford that just down-ticked a buck or up-ticked a half.

Or say there's a news item. Somebody in the room's going to notice it and yell it out. We encourage our people to mention facts that occur. We don't want to hear opinions. We don't want to hear, "Oh, I think General Motors is going to go up." But if Ford Motors just did a one point down-tick on a three million share block print, it's nice if someone saw that and mentioned it to the room in case anyone else has similar stocks and might want to take some action.

BJF: In an environment like this, where you've got 30-40 traders…

Bright: This is our biggest room. Most of our rooms have typically around 15 traders.

BJF: So, if they are all working in the same room and watching a lot of the same indicators, how often do you have a problem where two traders are competing with each other?

Bright: That's not a problem because, even in the same room, where there might be 12 traders, two of them might be trading the drillers, but there are 12 different drillers. You've got to remember most traders won't do more than two or three stocks in the same day. So, you've got a couple trading the drillers, you've got a couple trading the high techs, a couple trading the drug companies.

It's just that the people in the room, they get to know what the other people trade so they share information. You know that John down the aisle there is trading drugs, maybe trading Merck or something, and you see some news item on one of them, you'd say, "Hey, John, did you see the news on Merck?"

You've got to remember that every trader isn't watching everything. He can't see everything by himself. If he's watching an indicator, he might not be watching the news tape. You have a news tape, you have futures indicators, you've got options that you're looking at, you've got indexes of various segments of the market you're looking at. And you're watching your individual stock so you don't let a trade get by without seeing it.

We see every trade on the stocks that we're watching, every quote change. You might see 5,000 bid for, 8,000 offered. That means something to us. We work with people. It takes them a year or so to learn even what to watch for. We have a one-week training program that we put them through to get them a so-called "basic strategy" on trading. We teach them who the players are. They have to understand who the players in the market are to try to be able to identify those players by watching a tape.

When you see a tape of a trade or a quote change, after a while you get to visualize the actual people who are doing these things, and it helps you with your trading. You learn to anticipate, to push that button and be in there early to make that trade, because you're not the only one seeing certain things.

Let's say there are 10,000 shares offered, and you go in to buy 5,000, and you don't get it. We have people who say, "I should have had it. Why didn't I get it?" Because 75 other professional traders out there, plus a lot of other people, saw the same thing you did. What makes you think you're the only one who saw it? Speed is very important.

BJF: When you say you should have half a million dollars or more to do this as an occupation, how much of that capital is required because you must buy in large quantities, and how much is needed because there are very large fluctuations where you're going to make purchases that lose money?

Bright: Almost all of it is due to having the dollars needed to buy in large quantity. That's what we provide the capital for, for our traders. They provide a small deposit to cover their fluctuations. So, they come in with a $25,000 deposit. That, in general, will cover most fluctuations. And we put up the half a million or million or whatever someone can handle effectively. That way, we're providing them with the capital to trade with, but we're certainly not expecting them to lose any part of it. If they lose, it comes off of their security deposit.

BJF: In other words, if they lose, it comes off theirs; if they win…

Bright: It adds to their deposit.

BJF: If they win, if they make money on their trades, is that win completely theirs or is there a percentage that goes to your company?

Bright: The win is 75% theirs the day they make it and they get the other 25% at year end, assuming they kept out of trouble. We let people manage themselves as far as risk and things like that. We have it designed that if they never go below $15,000 in their trading account, they automatically get a 25% bonus of what they made. If they made $100,000 for the year, that's $25,000…

So, whenever they take $75, we take $25 and put it in a reserve. Say they make $10,000 the first month. They want to take a draw. They take $7500. We take $2500 and put it in a reserve account. At the end of the year, if their account never went below $15,000, they get the $2500. Or if they average $25,000 for the trading account for the year, we give them their bonus. So, in effect, if they manage themselves responsibly, they do get their bonus, they do get the other 25%.

BJF: So, what if on day one somebody comes in, puts in his $25,000 deposit, and then loses $30,000 in the first week or something?

Bright: In our eight years that has happened to us once.

BJF: Is that because you stay on top of people at the beginning or…?

Bright: It's because we stay on top of people. We have the software watching them, and every office has a manager who's supposed to watch them closely, especially the first few weeks.

It's very difficult to lose that kind of money. We have parameters that new traders can't exceed 5,000 shares of any one stock per trade. Now, how does a person lose $25,000 if they're only doing 5,000 shares of a New York listed? Most of the time, by the time a stock moves a point, it shows up in the red area on our software that they've lost $5,000. Especially a new guy, we're going to call him and find out what he's doing.

We don't even encourage new guys to trade 5,000 shares. We want them to trade 100 shares to start. The one time that we did lose was a guy that sat there and bought 5000, 5000, 5000, 5000, 5000. He had 25,000 shares. He ended up doing it on two other stocks. He had a total of 75,000 shares before either one of the stocks moved. Once one of them started moving, it showed up on our list and then we forced him out because it was in complete violation of all our risk policies.

He was a trader from Bear Stearns, and he came over and traded with us. He was just trying to take a shot with us—with our money. He lost his $25,000 and he lost a bit more than that of which we had to eat the difference.

BJF: In a major negative swing where all the stocks go down…

Bright: Our traders love that. Like the days the market was down 500 points, they usually make two or three times as much money as on an up day.

BJF: Why would that be?

Bright: Because stocks go down faster than they go up. Our traders don't care which way the market goes, as long as it moves. They don't want a flat line because there's no way to make money. Market's going down, they jump on board and they get short. So, a typical bad day in the market, a stock might be down four points. A typical up day in the market, it might be up one or two points. So, you can see they can make twice as much on the down side.

BJF: Are there any good books or publications for day traders?

Bright: No.

BJF: Nothing?

Bright: Were there any good books before 1962 in blackjack? How about in the 50s? I never saw one. There were some people even here in town playing blackjack in the 50s. They're not going to write a book until the game is over.

There are no good books on day trading. We provide a school; we teach people; it's in our interest to make sure our people stay around a long time. We make money when they're trading 2000 shares at a time, maybe doing 100,000 shares a day a couple, three years down the road.

So, we put a lot of time and effort into retaining people. We call it R&R, recruit and retain. We put more of our effort into retaining them because we make our money down the road when they're doing large volume because we get such a small amount of revenue from their volume.

We charge them the same thing as what they would pay if they were on the trading floor. You want to trade, go buy a $2 million membership in New York, or a $400,000 one in Chicago, and you stand there on the trading floor and trade for a penny a share. Or you can join us without having to buy the membership and trade for a penny a share.

BJF: How many offices do you have right now?

Bright: 35.

BJF: All in the U.S.?

Bright: All but one; we have one in Canada.

BJF: How long has Bright Trading been in business?

Bright: Since 1992. I've been involved with the market since '78. I joined with Eddie Franco in '92 and we formed Bright Trading. I had retired after '87 and I was trading a little bit from home. But it's really difficult to make much money trying to trade as a lone wolf from home.

During a visit to San Francisco, Eddie demonstrated electronic trading. It was just becoming feasible in the early 90s. He said, "Pretty good. Technology is about there. About ready to do it." So we joined forces in 1992. I had the capital and we had the networking ability to do it, both in people and in getting it done with the computers. We're 50/50 owners.

He was a blackjack player in the 70s also. I joined the Exchange in September of '78, and he came out about six months later. Eventually, I retired, but Eddie stayed and continued trading. When he was playing $10 blackjack, I was playing $50. When he was playing $50, I was playing $500. The same way in the market. So, we formed Bright Trading with his knowledge of technology and my capital. It's grown ever since. Our first trader joined us the same month we started. He's still with us. We have a lot of people come and go, like any other business. Everyone can't be a card counter, and the same thing can be said for the day trading business.

BJF: Is it conceivable that a day trading system could be set up in which a computer itself made all the trades?

Bright: To a point.

BJF: A computer can play blackjack better than a human player, but the casinos won't allow it. But technically, in the stock market, if you could just go in…

Bright: It is allowed in the marketplace. I know a lot of people who have been working on that for years. They do have some computers that trade the market. Every year they get a little better, but the main thing they've learned is that if they unplug the computer for two days, it doesn't do as well as if it stayed online all the time, because you have to keep the continuity going.

Again, you have these indicators and these things that work. They slowly work or not work over time. And as more traders see indicators that are working, more people jump into it. Pretty soon they don't work. So, whatever way you design the computer to make decisions, the computer will have to react to those changes also.

BJF: In other words, you would have to have a program that was flexible in which trends it watched changing and which indicators changing?

Bright: Right. We have traders in our firm who are 99% computer. They sit there and watch the computer and they override it once in a while or they don't. We have a guy in Chicago that we call "the computer system." Hal. He has just himself and a few other people that just watch the computer and make sure it's doing what it's supposed to do.

BJF: Are they using their own program?

Bright: Yes. A proprietary program. They asked to work with us. Blair Hull, you may know, back in '92, had a computer doing it. He was showing me 30,000 orders a day going into the New York Stock Exchange. Back then, if you had left the order in more than two minutes, they could charge you an extra penny per share. So, he had the program set for a minute and 45 seconds to kill the order.

Blair and I traded in San Francisco for a few years, and then he moved back to Chicago, around 1980. I went back in '83. He retired in '83. When he saw how I was doing in '84, he jumped back in again and he built a very large arbitrage type company in Chicago. He eventually sold it to Goldman about a year ago for $600 million.

But even in '92, when I was beginning to form this company where traders could come in and trade from an office instead of having to stand on the trading floor, he had already developed computers that would make the entry point decisions on the stocks. So, he was way ahead of the curve on that.

So, yes, there are people that do that. But no computer will do exactly what it's supposed to do, where you can fly away somewhere and come back a month later and count your money. It doesn't work that way. In '87, they thought it would, but that was the cause of the '87 crash—computers were doing a lot of stock selling themselves regardless of the price of the stock…

Exchanges will change rules when they discover certain things happen. So, there were all new rules about using computers. If the market moves more than a certain amount, you can't utilize computers to program trade.

BJF: Do you yourself sit down and trade personally anymore?

Bright: As the company has grown, I have been trading less and less. My partner hardly trades at all anymore. Our average trader will trade about a million shares a month. I used to trade maybe 5 million shares a month. I'm down to about 2 million.

I do better when I travel to another office to audit the office or see how things are going. There are 35 offices. We're adding a few offices this summer. It's hard to keep up now. We may have to hire some additional help. We only have three employees in the whole company. We have 400 traders.

BJF: How long have you been teaching classes in day trading?

Bright: Not quite two years. For the longest time, we were bringing people from the trading floors. It was cheaper for them to join us and trade than it was to trade off the trading floor.

The first 100 traders we had were mainly experienced who may have had a year to ten years or so experience. Then some of them said, "Well, I'd like to run an office for you in San Diego or Kansas City or wherever." Fine, so we were looking for people who knew how to make money trading to run offices so we could build other offices.

We knew the technology was there, but not the expertise within the non-exchange cities to be able to get the traders. So, that's how we grew. Whenever we had someone willing to run an office in another non-exchange city and they wanted to go back home and do it, fine. Do it. We've gotten some pretty good offices that way.

The Bright Trading Training Process

BJF: How often do you have a class, and how long is the training period?

Bright: Right now we have a class about every 4 to 5 weeks. They're four hours a day for five days. Taking the course is to day trading what reading your book one time would be for a blackjack player. That's all it is. At the end of the week, you know just the basics, whatever you retain.

A lot of them will come back in three months and take it again. We charge a one-time fee for the class and it's a lifetime fee. We believe in continued education. We want to retain our traders. So, they go through the class, most of them come back three months later, a year later. And they continue to come back.

BJF: Are most of the people who take the class doing this with a view to trading with your company?

Bright: Not necessarily. Some of them take the class just for their own benefit. We open it up for anybody, but it really doesn't apply to at-home people. They can't utilize the techniques we teach because the cost is prohibitive. A lot of them get a lot of value out of it even if they're not going to do this… It opens their eyes up. It helps them save a lot of money over the long run on their investments.

We had nineteen people who attended our last two classes, plus some of our own people who came back for a refresher course. They try to come back once a year anyway to keep up on any new strategies that we've developed or that we've seen. People who are making less than a quarter of a million a year, we strongly encourage them to attend, because they're obviously not making what they should be. So, of the 19 people that have never traded with us before, 13 signed up, and six decided not to.

BJF: How many students in total have you trained over the years?

Bright: Oh, I don't know. I don't think we've ever had a class over 19 or 20… Say 18 times 20, 360.

BJF: How many of these 360 do you think are now serous professional day traders?

Bright: I'd say 25% of them. When I joined the San Francisco Stock Exchange on the trading floor, I was appointed to a committee where I was able to see the turnover. For every hundred new people that came, 80 were gone within six months. Half of the remaining 20 were gone within the year. Of the ten who were there for the full year, eight of them were still there three years later.

So, it's like eight out of a hundred made a career out of it. Here, we used to have about 15 out of a hundred. Since we started the school, we've got about 25 out of a hundred that are making a career out of it. But that's the same in any business. How many succeed in card counting? The cream of the crop, they make a great deal of money. I would guess 2% of the people… This is one of the reasons we started the school. We saw that many of the people were just not getting it. They weren't being retained.

BJF: Are there day traders who form teams in the way that blackjack players do, where they combine their bankrolls?

Bright: Yes, there are. That's what Blair Hull did. He hired a lot of people and had them work as a team. He had people on various trading floors. He interconnected all the computers so that if someone in the CPQ pit or the General Motors pits bought or sold a lot of options, it would reflect the bids and offers for his people in the S&P pit or in the IBM pit.

There are a half dozen major firms tht are doing that as a team where the people are being paid salaries for the company. They're not independent. I remember Blair Hull had numerous people… He would hire these 6'6" guys to trade on the CBOE floor because they were tall and had loud voices. All they had to do was read off what was on the computer…

Once they got together, and they told Blair he had two weeks to come up with a better pay for them because he was paying them $30,000 a year. After about eight trading days went by, they got worried that he hadn't gotten back to them. So, they appointed one of them to go up and see what he was doing and give him a date when they were all going to quit. They found him in a room training 30 new people. He just said the heck with it. He hired new people. When you tell people exactly what to do, you don't need to pay them much.

But our traders here are all independent traders and they make what they make based on their own efforts. There are a lot of traders for Goldman Sachs and for a lot of firms on the trading floor that get to keep maybe 30-40% of what they make. And they use the firm's capital. They don't put up anything. These are people who came up through the ranks and were given the ability to trade and they get a percentage of what they make for the firm.

We just took a different way because I learned from being on the trading floor that the bigger traders were backing the smaller traders and it was working out okay. So, we began to do that here. And we started off giving traders like 50-60% instead of 30-40%. It went up to 75%. Then we eventually went to 100% because we were able to do it and get traders to come directly to us from the trading floors, even the ones who were highly profitable.

Through the economies of scale, we were able to offer them the same income, in fact, more net income, but the same gross income with lower costs and there's still something for us. We charge everybody $600 a month for a workstation. They were paying $20,000 a month on the trading floor for their overhead just to show up. They had to make $20,000 in a month to pay their overhead. With us, they have to make $600 to pay their overhead.

It's like you have a lot of players out there on a team, and they keep all their winnings, but you get all the comps. You can resell the comps. On a bigger scale, a wider scale, with more traders and a bigger thing, it's probably better to have individual traders make money. Our people don't pay commissions. They pay transaction costs. You bypass brokers completely. We're a broker-dealer acting as a dealer, not as a broker, because we have no retail accounts.

Therefore, we get dealer transaction fees, not broker commission fees. So, our people pay transaction fees. We get some of that back from the clearing firm because of the economy of scale. The clearing firm looks at our firm rather than every individual. They don't care about the individual. If an individual trader loses half a million dollars, they don't care. Just take it off my account, under the firm account. They give us back the cost so to speak.

Much of what we do at Bright Trading is modeled after blackjack, because since I left Johns-Manville in 1974, blackjack and the market have been roughly 50/50 of my time. And one models the other. We took the blackjack model and moved it into the stock market in '78, trading stocks and options. Actually, I went to L.A. I said, "I want to join the stock market." They said, "What do you know?" I said, "Nothing." They said, "What have you been doing?" "Playing blackjack for a living." They said, "Why don't you go up to San Francisco and trade options?"

They saw me as a novice who knew nothing about stocks. But options were more mathematics-related. I went up there. One of the clearing people asked me, "How are you going to trade?" I said, "I haven't the slightest idea, but I will figure it out. I will take some of my blackjack abilities and discipline and apply it to the market." And they said, "There's already one blackjack player doing this. Why don't you contact him? It could save you some time." It was Blair. He already had a computer model for what we needed and I shared costs with him.

BJF: How long did you work with Blair Hull?

Bright: I didn't work with him, but we worked as independent traders sharing information from '78 until… I left in '82. And then in '84 and '85, we talked a bit back in Chicago. I retired in '85 and then he kept his company going. Then I jumped back in '87. I saw it was a great market opportunity. And then I retired again in '88.

Since '88, I probably haven't run into Blair more than once or twice. Then, in '92, Eddie and I started Bright Trading. Blair was a dominant force in Chicago. There were two of them. He was one of the two who were really in control of everything out there just because he was smarter than everyone else.

He wasn't really dominant in San Francisco, but he was one of the sharpest. I'd love nothing more than to get poker players and blackjack players to come trade with us, especially now that the casinos are all putting in perpetual shoes. There have to be a lot of counters out there who could use their abilities with us, and probably make a lot more money.

I don't know if you have a clear sense of the similarity between blackjack and the stock market, but it's pretty much the same. You go from red chips to green chips to black chips to pink chips. In the market now… the casino scene is small potatoes. Every time we make a bet here, you can make or lose thousands of dollars. Typically, our trader, after about two years, are making six figures or more. Not everyone can do it. The ones that pick up on it, are with us for life. This is what keeps our firm growing. ♠

[If you want to investigate Bright Trading further, visit their web site at: www.stocktrading.com, or call them at: 1 (800) 249-7488.]

For a winning futures trading system, with a complete explanation of how such systems work and why they work, see *Way of the Turtle: The Secret Methods that Turned Ordinary People into Legendary Traders* , by Curtis Faith, one of the most winning traders of the Turtle trading group.

For more information on professional blackjack players turned stock traders, see *Market Wizards: Interviews with Top Traders* and *The New Market Wizards* by Jack D. Schwager.

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