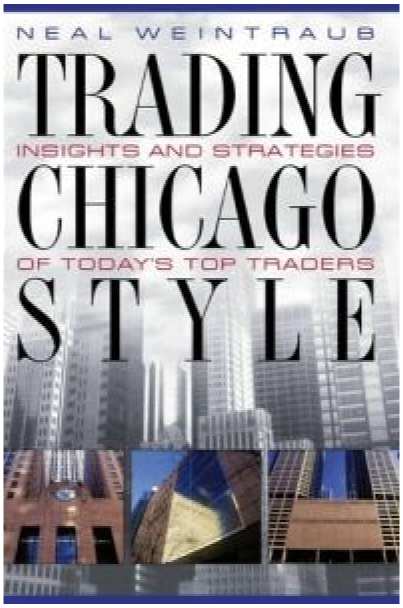

Book Trading Chicago Style

Insights and Strategies of Today's Top Traders

Neil T. Weintraub
McGraw-Hill, 1999

Recommendation

This book is a series of discussions between author Neil T. Weintraub and some of the most successful people trading on the Chicago markets today. Like the trades, the information flies fast and furious, and one trader's ideas may completely contradict another's. But most seem to agree that the keys to successful trading are discipline, psychological stability and a solid understanding of risk management. You will succeed in the Chicago markets if you keep your cool and stick to your system, no matter what's happening. This chat-happy book offers many perspectives, ideas and experiences from extremely knowledgeable sources. The uninitiated reader might find it difficult to follow some of the more jargon-laden discussions and the initiated reader might find the chattiness to be disturbing or irrelevant. But regardless of which category you're in, *BooksInShort* recommends this book as a valuable introduction or a helpful trade manual.

Take-Aways

- Trade defensively - without capital you won't last a day as a day trader.
- Trade unemotionally - the market doesn't care whether you win or lose.
- Analyze the pros and cons of pit trading before you get involved.
- A fine line separates a successful trader and an unsuccessful trader.
- Trading is a profession - don't treat it like a hobby.
- Electronic trading will smooth your entrance to the more established markets.
- The best and worst traders have bad days in the pit, but only the best traders make it a point to learn from their bad days.
- The best trader is the one with the most discipline.
- The best time to start trading is straight out of college.
- Before you start trading, make sure you have a firm grasp on the principles of risk management.

Summary

Trading Chicago Style: Yesterday and Tomorrow

The phrase "trading Chicago style" - with its images of screaming, arm-waving people - used to strike fear into the hearts of the uninitiated. For the most part, trading Chicago style is still the same as it ever was. But it is on the verge of change. Like every other financial institution, Chicago is feeling the heat of the fireball known as the Internet. Electronic trading has started to widen the marketplace in every way. Locals soon will begin to leave the pits and settle in behind computer terminals. The traditional hours of the pits will be abolished. People will trade any time they want, morning, noon, or night. New traders will establish themselves more easily. Finally, the premium on market information will rise quickly.

What Traders Can Learn From Gamblers

Pretend you're gambling on a football game. Will you bet on the team with the better offense, or defense? What if you knew that no Super Bowl champion has ever ranked in the bottom twentieth percentile of the league, defensively? No matter how poised the quarterback or coach, if the defense is weak, the guy calling the shots will lose his composure. He'll start calling plays out of desperation. He'll let too much emotion creep into his decision making. He might even abandon his decision-making process entirely. In short, bet on the team with the better defense.

> "It's amazing how people will spend years of study and thousands of dollars to become a lawyer or a doctor, but somehow they think they can enter the high-income profession of futures trader without doing a bit of preparation." [Gant D. Noble]

Now pretend you're speculating on the market. Are you going to play with an offense- or defense-minded strategy? Easy - play defense. You won't win big overnight. In fact, you might lose a lot, especially in the beginning. But you'll always have enough capital to keep playing. Capital preservation is the key to speculation.

> "The stock and bond industries have reached the same position that futures were in twenty years ago. An unprecedented bull market has shattered every 'fundamental' rule in the stock market." [Gant D. Noble]

Take pointers from gamblers' record keeping. Most gamblers are losers. Most traders are, too. You don't hear about the losers, though. You only hear about the lucky ones. Forget them. Luck doesn't last. You will do better by being consistent, by tracking your wins and losses, and by riding percentages instead of hunches. Trading is a long-term game. The trick is to survive.

Pit Trading: The Agony and the Ecstasy

Pit trading is like a roller-coaster ride. You don't know what's waiting around the corner. You could find a huge drop, a loop, or a steady climb. The ride might end far sooner than you thought. You can gather some information before you actually strap yourself in and try it, though - information that can help you decide if you can handle the ride.

- You get to be your own boss. Your trades are your own, to have and to hold, in sickness and in health. Regular paychecks, however, are not. You might get paid like a king one week and like a beggar the next.
- The pits will reward you with a nice-sized commission reduction. But you won't see the perks or benefits that you'd get from a corporation.
- You're in the driver's seat. If you win, the money, the confidence, the excitement, all belong to you. But if you lose, you're all alone. No one is there to buck you up. This can be terribly isolating.
- At day's end, exact figures tell you how good it was. On the other hand, they tell you exactly how bad it was, too.
- You can show up, eat lunch, and take vacations when you want to. But when you're in the pit, you have to scream, stand, and hustle. The pit can (and will) punish you physically.

> "A trading system or method, in effect, creates an objective, consistent frame from which to make your trading decisions. Emotion and lack of discipline are the primary reasons that most traders fail." [Doug Patrick]

If pit trading is not your style or speed, don't even think about it.

Successful Traders vs. Unsuccessful Traders

If you follow a baseball, you begin to notice the little things that separate an all-star shortstop from a mediocre one. The all-star shortstop starts each play on his toes, watches every ball and communicates effectively to keep the defense moving fluidly. But the mediocre shortstop doesn't pay attention to the details and nuances of the game. Therefore, his success level is lower. His paycheck is, too.

> "In the end, nothing can take the place of a trader analyzing and combining all the data into his own winning pattern." [Gant D. Noble]

Successful traders are a lot like all-star shortstops. They take care of the little things, and always play to win. They:

- Have worked out a trading strategy. They respect this strategy, know it works, and never deviate from it.
- Find a good technique, and use it continually.
- Are solid as a rock - emotionally, physically, and financially. Greed, fear, and panic are not in their vocabularies.
- Find ways to get more information than anybody else.
- Trade - while others talk about trading.
- Play the game without worrying about the results. They know that solid play will lead to a winning season.

> "The markets are a better source of information on what is going to happen in the markets than any news media."

At the same time, unsuccessful traders are a lot like mediocre shortstops. They make errors because they aren't prepared. They:

- Lack discipline.
- Trade in an emotional way.
- Use a strategy is that is non-existent or continually changing.
- Don't have enough money to take the right risks.
- Don't honor the information-gathering process. Therefore, they don't get enough information to make responsible decisions.
- Blame everyone but themselves when things go wrong.

> "Technical analysis results generated by today's trading software should be viewed as decision-support information and cannot substitute for sound decision making itself." [Louis Mendelsohn]

Just as you would advise a child who likes to play sports to emulate the all-star shortstop, watch and learn from the best traders. And just as you would teach your children that they must prepare themselves to fail, remember - you will fail at trading too, especially at first.

10 Rules for Trading

1. Like any other profession, you've got to practice trading if you want to get better at it.
2. Being uncomfortable is part of the trading process. You will probably be uncomfortable for your entire career. Make this discomfort productive.
3. Meet other traders and try to pick up on their unique qualities. Everyone is different, has different quirks, and has different things to teach you. Pay attention.
4. Study disciplined traders, then emulate them.
5. When you're in the pit, try to get a rhythm going. Don't break this rhythm by leaving the pit.
6. Have goals, but only work on a few at a time. Too much happens in and around the pit for you to focus on more than a couple things at once.
7. Your work habits are more important than winning big on one trade. Chances are, you will win big over the long run with solid work habits.
8. Learn, learn again, and keep learning.
9. Understand computers.

10. Remember that there is a huge gap between theory (trading systems) and practice (real world trading).

Electronic Trading

If you are an exceptional trader to begin with, developments in electronic trading should make you happy. Electronic trading will allow you to trade in several pits at once, and to compete with the local traders who are rubbing elbows with the big brokers.

> "Investing should be less like rocket science and more like golf: In the end, it doesn't matter how you get there; all that matters is how you score." [Thomas R. Peterson]

If you're relatively new, electronic trading will ease your entry to the pits. Making a name for yourself in some of the more established and liquid markets is very difficult. It costs money and time. But with electronic trading, the financial world will take newcomers as seriously as veterans. For the common trader, electronic trading will make life easier. No more standing around all day, no more screaming your throat molten-lava-raw.

Different Kinds of Traders

Most traders have inherent flaws or weaknesses that keep them from achieving maximum return from the market. Therefore, you must know what kind of trader you are. The following list can help you find out. Be honest with yourself - it's the only way to improve.

- If you get too nervous at the first sign of profit and collect on it immediately, you are a timid trader. Timid traders allow fear to rule their trading lives. They miss a lot of opportunities.
- If you trade for the thrill and excitement of the game, you are a gambler. Gamblers don't come in with set agendas or systems; they usually shoot from the hip and disregard risks. If you're a gambler, be prepared to lose a lot of money in a hurry.
- If you don't worry at all about losing money because you know that tomorrow may be your day, you are an optimist. Unfortunately, if you don't work hard to be critical and fix certain flaws in your game, you always will lose money.
- If you take losses too personally, you are a victim. This self-defeating attitude only leads to perpetual failure. The market is not set on your personal ruin; it has much bigger fish to fry.
- If you blame everyone but yourself, you are a blamer. Take responsibility, or you will be run out of trading.
- If you can't pull the trigger, or if you don't trust your own judgment, you are a doubter. Build some self-confidence, or the market will swallow you.
- If you have a good, solid system and you follow it every time; if you can handle losses objectively; if you are relaxed, and don't lose your cool, then you are the best kind of trader: a disciplined trader.

How to Get Started

Like any job, it's best to learn day trading from the bottom up. Start fresh out of college. That way, you will understand all the complex workings of the system in which you hope to make your money. If you're planning to start trading in mid-life or beyond, however, your primary concern needs to be with your funding. Don't fund your trading excursions with money that you will need to pay off debt.

> "The most fundamental skill a trader can acquire is the ability to truly accept the risks inherent in trading." [Mark Douglas]

Also, develop your own system rather than buying one. If you developed a world-class system, would you sell it? No. You would use it yourself. The best systems are the ones that people keep to themselves. Systems that you can buy are on sale for a reason. Be skeptical of them.

Finally, understand risk management. Along with psychological toughness and backup capital, it is the key to successful trading. Don't risk too much when you get started. Risks per trade should not exceed 3% of your trading equity.

About the Author

Neil Weintraub, author of the best-selling *Tricks of the Floor Trader* , has years of experience as a floor trader and Commodity Trading Adviser. He currently teaches his own day-trading method to floor traders at the Chicago Mercantile Exchange.