PART ONE

A Foundation for Success

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CHAPTER 1

The Trader's Edge

I was in Las Vegas. The year was 2003. I was conducting a seminar at a large financial event attended by traders and investors from around the country. The attendees came to the desert hoping to learn more about the markets. I was standing in the front of the room finishing the last details of preparation for my presentation when the crowd began to gather. I could not help myself; I began eavesdropping on some of the conversations. In my defense, it was almost impossible not to do so because the capacity-filled room of 1500 participants seemed to magnify the voices near me. Repeatedly, I heard the same refrain echoing around the dimly lit room: the bursting tech bubble in 2000 had been devastating. Noting the gray on their heads and lines of wisdom on their faces, I realized that many of these attendees were either retired or approaching retirement. They had apparently trusted professionals to handle their investments. As the new century began, their portfolios were heavy with techs and dot-coms. With the high-tech sector experiencing such meteoric gains, the folks in my audience had been relying on those investments to fund happy idle days filled with gardening, cruising, playing with the grandkids, and just enjoying life. Then the dot-com crisis destroyed their plans.

On March 10, 2000, the Nasdaq hit an intraday high of 5132.52. The bulls had been pushing prices up since 1999. Investors and traders loved the Internet technology that led to the formation of many dot-com companies. During the year before the crash, market value in the tech-heavy Nasdaq had doubled in value. These listed corporations offered a variety of products and services—some practical and some not. Many of them did not follow traditional business models. Even those that had never turned a

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profit attracted investors and dollars flowed into their coffers at unprecedented rates. Just one year before the bubble burst, I boarded a bus in Beaver Creek, Colorado. I was taking a short hop from the slopes to my lodge. While I was on the bus, a popular dot-com company moved up 10 points—10 points in value in minutes. That particular Wall Street darling that enjoyed the spotlight in the late 1990s is now defunct. Few of today's traders would even recognize its name. Based on the conversations I was hearing in Vegas, some of the money lost in the dot-com fiasco had obviously come from people sitting in front of me.

On Friday, March 10, 2000, investors were happy. Their high-tech gamble seemed to be paying off for them. Then Monday, March 13, came. The U.S. markets gapped down at the open and headed south. Initially, the drop was not excessively dramatic—about 10 percent loss of value over the course of several days. Many analysts hoped that a correction might be good for the markets and prices would stabilize. But the bears were relentless and the fall did not end. Tech stocks continued to decline in value for many months. By October 2002, $5 trillion in market value in tech stocks was gone. Month after month high techs experienced a slow but steady downward bleed. As Figure 1.1 depicts, the Nasdaq took a beating in 2000 and has not recovered to precrash levels. In fact, at the time of this writing, it has not even recovered to the 50 percent level.

I remember going to Cozumel the year the bubble popped. I met a man from Florida who was a police officer. He was living it up, enjoying the sun, smoking expensive cigars, and bragging about his investment in an Internet

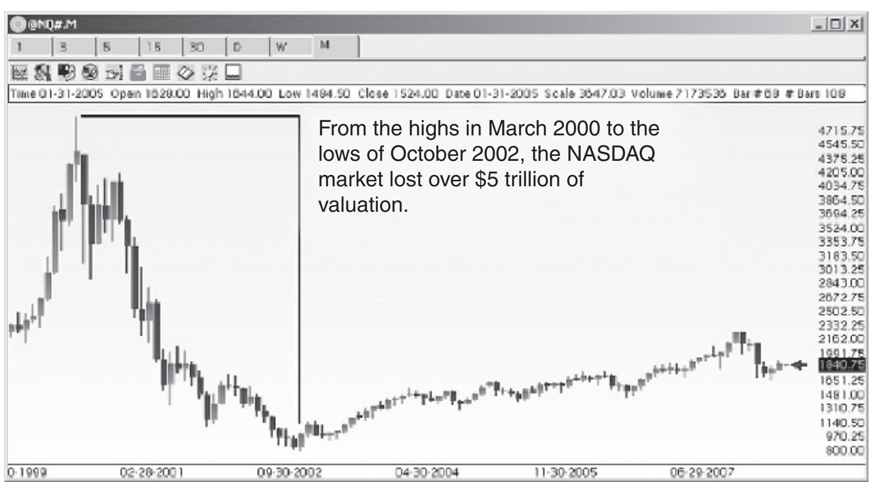

FIGURE 1.1 The Nasdaq's drop in 2000 and its slow struggle back. Eight years later it still has a long way to go to reach those early 2000 highs.

company. He claimed to have bought some stock for $10 a share, and he said it was currently trading for $200 a share. When I asked him some basic questions about his investment, like the products and services the company produced or provided and other such simple information, he looked at me like I was a fool and admitted that he really knew little about it. His investment was a great one, and he was holding on to it for the long term. It was his ticket to wealth. I remember thinking that the policeman was evidence that the bubble was about to burst. If a policeman who admitted that he knew nothing about the stock market was seeing his Internet investment go from $10 to $200, something was about to happen and it was not going to be good. When I think of that guy now, I wonder how his investment was faring in October 2002.

I suspect that the Florida cop crashed and burned like so many others. Clearly, a lot of the folks in the room in Vegas were also on the losing team in 2000. I heard them speak of portfolios cut in half and retirement funds wreaked. As the stories were repeated, many admitted that they had listened to fast-talking brokers and advisers who lured them into feelings of security and trust. They asked few questions and lived to regret it. This was not a happy group. They were skeptical, and with good reason. They and their portfolios had taken a beating.

As I started my presentation on that day in Vegas, it was important to offer them some good advice. I wanted to help my listeners make money and regain confidence in themselves and their abilities. I believed that I had some valuable information to share. I identified with the pain in their faces because I, too, had personally experienced the devastation of a huge financial loss. Not in 2000, but years before. As the room in Vegas came to life, I remembered those terrible days.

On October 19, 1987, I was living in Oklahoma City working as a vice president for a large brokerage house. At that time I had been a broker for a number of years specializing in trading futures and options. In fact, I was one of the largest retail options traders in the United States. With the right play, a lot of money can be made in options. But greed and mistakes can be costly. The month before the crash, I assisted my biggest client in making a million dollars. That is a million dollars of green in one month. On Black Monday, he lost that million and much more.

Making money seemed so easy before that fateful trading day over two decades ago. On August 25, 1987, the Dow Jones hit a high of 2722, and the markets seemed unstoppable. When I left the office on Friday afternoon, October 16, I thought I was king of the mountain. I, a small-town boy from Mobile, Alabama, was beating Wall Street. Little did I know that within a few days the Dow Jones would drop more than 500 points and lose more than 22 percent of its market value! In fact, such a thought was unimaginable to me. Friday's market had been very active, but I saw no

FIGURE 1.2 The dramatic Dow drop on Black Monday in 1987. On that date the Dow Jones fell more than 500 points representing a loss of more than 22 percent of its market value in a single day.

signs of collapse. When Monday's trading began, I initially saw no signs of panic. However, a real sell-off came in the afternoon and the madness began. From those highs in August (2722), prices quickly tumbled to a low of 1739. The huge drop in the United States reverberated around the globe. To the north, south, east, and west the pain and panic spread. A look at the Dow Jones chart visually depicts the 1987 crash. The numbers cannot begin to convey the pain suffered. Figure 1.2 captures the dramatic price drop that translated into financial disaster for me and for millions of others.

Many folks view Black Monday in 1929 as our market's most severe crash. In fact, in 1987 the financial markets experienced their greatest single-day percentage price drop in our nation's history. It is true that the long-term effects of the 1929 crash were more severe and extensive. Following the 1920s plunge, our nation fell into a deep depression that lasted for years. In contrast, in 1987, the Dow started on the road to recovery relatively quickly. Nevertheless, the yearly highs of August 1987 were not seen until 1989. Even though the downward dive was brief, the impact of 1987 landed a devastating blow to many traders and investors, and I was one of those left bloody. I know now that the key to avoiding such a disaster in the future is education and more education. Keep studying and improving. And, above all else, respect risk.

On that historic date in 1987, I was short approximately 1000 S&P 100 puts. That is, I had sold about 1000 options that I did not own. I had guaranteed the buyers of the puts that I would produce the underlying stocks if the strike price of the options was hit. In the melee, the strike price was hit and I was obligated to produce. That meant that I had to buy the shares at a preset high price and deliver them to their rightful owners. Never mind that the market had fallen like a meteor dropping across a vast Montana sky. Never mind any excuse or rationalization—I had to deliver on my deal. Survival, the basic instinct of mankind, became the dominant motivation of the day. Brokerage houses, fearful that they may not survive, forced customers to immediately liquidate positions and, in many cases, meet huge margin calls. Watching the clients ante up was like seeing lambs led to the slaughter.

On Black Monday there were so many orders hitting the exchanges that the computer systems were unable to execute them. According to John Phelan, the chairman of the New York Stock Exchange at the time, about 600 million shares traded that day. Unfortunately, that was about 200 million shares more than the processing capacity of the industry. (See *Fortune*, online edition at CNNMoney.com, "Remembering Black Monday," Corey Hajim and Jia Lynn Yang). The exchanges were forced to close in order to sort things out. For some time, traders were in the dark about their trades and their accounts. Had the orders that they had placed during the panic been filled? If so, at what price? Was a margin call due? If so, how bad was it? Those were scary times.

Such uncertainty added to the tension and fear. Both my clients and I had to nervously wait and worry for days before we knew the total extent of our losses. Once I learned the truth, it was not a pretty sight. I, of course, was not alone. Many of my clients were also badly hit, and that was very painful for me. Personally, I was broke. I had to sell basically all of my assets and start again. My nice car, my beautiful home—all of my hard-earned and valuable possessions were gone.

Folks who know me are aware of my fondness for trading futures like the S&P, Dow, and Nasdaq. I'll tell you one reason that I value futures. In addition to options, I was also trading some futures contracts to help me hedge my position when Black Monday hit. Had it not been for those futures contracts, I would have been forced to file for bankruptcy. I lost a lot, but my futures play was my lifeline. I would have been completely finished had I not done some hedging maneuvers with futures.

My investment portfolio was in ruins, but the loss of worldly goods was not my only problem and certainly not my biggest. I lost my sense of trust in the financial markets. And I lost faith in myself and my ability to

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make a living in the arena that I loved. Incidentally, to gain a respect for the resiliency of our financial markets, consider that the Dow high in 1987 was around 2750. Currently, the Dow is trading in the 12,700 area—a big upward move since those sad days of 1987.

THE ROAD TO VEGAS

I did not know how much money the folks in my audience in Vegas had lost with the 2000 crash, but I knew many of them had lost a significant amount and they were seeking answers. After 1987, I, too, sought answers. Not long after the collapse, I left Oklahoma City and headed east to my hometown, Mobile, Alabama. For some time, I struggled both financially and emotionally. I tried to regain my footing and my confidence. I traded, but my fear prevented me from making the right moves. I wanted to make money but was paralyzed by fear. I was going through a difficult time, but I continued to study the markets and work hard analyzing them. Gradually, with a lot of effort, patience, and persistence, I began developing a different trading strategy that respected risk. I still hoped to make money, but with each trade I considered the risk associated with the trade first. If the risk was too great or if I could not afford the potential loss, I did not take the trade. It was a new approach for me. It was that background and knowledge that I stood ready to share with those investors and traders who were disillusioned in Las Vegas in 2003.

Much of my trading focuses on indexes like the S&P 500. Rarely, a day goes by that I do not trade the S&P 500 futures. Some readers may not be familiar with this product. It is an equity index futures contract, and its value is derived from the cash value of the S&P 500. I see this futures contract as a way to trade the value of the stocks listed on the S&P index without actually buying or selling corporate shares. These are futures contracts, and trading them involves unique risks but also offers unique rewards. I explain these advantages and disadvantages later in the book. Just suffice it to say here that I am known as an S&P trader, and many of my listeners in Vegas in 2003 expected me to make recommendations about S&P trading. They were surprised when I shifted gears and suggested they look at gold.

Because I am a trader, I track and trade a variety of financial products. If I see an opportunity in commodities, I trade that area of the market. If equities or options appear to be ripe for profits, I look there. During the course of my career, I have traded equities, options, futures, precious metals, fuels, agricultural products, and anything else I could find that offered money-making potential.

At the time I was speaking in Vegas, one of my dearest friends and most loyal clients was Dr. Smith. Dr. Smith had a fascination for gold and for years had wanted to find a buying opportunity. With a great deal of persistence, I had steered him clear of the precious metals market because I did not believe money could be made there. Year after year the bulls faced losses, and year after year I kept the good doctor away from that particular arena. However, I always followed prices in precious metals both because I was looking for the right time to buy and because gold can be used as a market indicator. (I will tell you more about the significance of gold as an indicator in Chapter 4.)

On this particular date, I saw signs that an upward move in gold and precious metals was likely. Therefore, I did not suggest that the audience trade the indexes, but rather I recommended a metals play. Specifically, I told the group that if they took a long position in gold or silver they should be able to make some money and pay for their Vegas trip. The specific stocks I suggested were ASA Limited and Hecla Mining. Both Hecla (HL) and ASA (ASA) are traded on the New York Stock Exchange. Hecla is one of the oldest silver and gold mining companies in the United States. ASA Limited was founded in the 1950s. These corporations were not flash-in-the-pan businesses.

Much to my delight, before leaving Vegas, several of the show's participants approached me to report that they had taken my advice and gone long gold. The play had paid and they were ready to listen to more of my market musings. Not only had these skeptics made a little money, but they had also regained some of their lost faith. In fact, some of the people who sat in that audience in Vegas are still trading today and are students at DTI, the trading school I founded in Mobile. They have learned that with the right market plays, money can be made on Wall Street. Ron McDow, a student and one of those who watched that gold trade in Vegas, later noted that the market truly pays for knowledge.

Gold has been experiencing a bullish run since 2003. Figure 1.3 is a chart of mini gold futures. It shows the steady sharp climb of gold from 2003 to the present. There have been some small and brief corrections and consolidation periods, but the overall trend has been up. I have traded gold many times since that Vegas conference.

BECOMING A TRADER

My experience with trading equities goes back a little further than that 2003 trip to Vegas. I made my first equity trade in the late 1970s. I was serving my country in the U.S. Air Force and was stationed in Madrid, Spain. I

FIGURE 1.3 I, like others, have been bullish on gold for years. And, as the mini gold futures chart shows, the market has proven us right.

knew almost nothing about the stock market, but had a pal who traded pork bellies. Every day he bragged about all the money he was making. I had no clue as to how to trade pork bellies or anything else, but not wanting to be outdone, I decided to open a stock account and make a purchase. I thought that Merrill Lynch was the only brokerage house in the world. At least it was the only one that I had ever heard about. So, I made my way to downtown Madrid, the capital and most populated city in Spain. I located the Merrill Lynch office and opened an equity account. I knew so little about the markets that I thought I could trade pork bellies with a stock account. Little did I know that I had to open a commodities account for that particular trade. At any rate, I had an account and I was in the game.

Because I was associated with the aeronautical branch of the military, I purchased shares in two air carriers: Eastern Airlines and Pan Am. My purchases seemed logical to me at the time, and I made no analysis of either company or their financial performance. In those days, I had never heard of real-time market quotes and had no means of obtaining timely price data. Few individuals did, and certainly not a serviceman stationed in Spain. My financial numbers came from a military publication, *The Stars and Stripes*. The prices quoted in the publication were days old. Nevertheless, I always checked the stock section and noticed how my holdings were trading.

Regardless of whether they were up or down, I was proud to be a shareholder. Like my pal, I also bragged about my market acumen.

Truth is, my first venture into the markets did not serve me well. Both Pan Am and Eastern Airlines no longer exist, but I still have some of my shares. They are hanging in the classroom of my trading school in Mobile, Alabama. They decorate a small section of a rear wall and are concrete evidence of my long and hard battle with the bulls and bears of Wall Street. How many times have you made a "logical" decision that turned out to be not so logical at all? At least those shares ended up being of some value. They add a personal touch to the classroom décor and evidence my first attempt to be a market player. Admiral Nimitz, the commander-in-chief of Pacific Naval Forces during World War II, once said, "Every dog deserves two bites." I'm glad I got my two bites at the markets because my second one paid off for me. Figure 1.4 is a photograph of my Pan American Airways stock.

Shortly after my stock purchase in Madrid, I completed my stint with the military and moved to Oklahoma City. I had a day job and attended law school in the evenings. Because I had enjoyed trading equities, I

FIGURE 1.4 This was one of my first stock purchases. I bought 35 shares of Pan American Airways.

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contacted the local Merrill Lynch office and began spreading my wings again. This time, my broker, Henry, suggested that I trade options. Oil prices were soaring, and Henry traded oil options on a regular basis. He taught me his strategy and I, too, became a player. Henry espoused the Bigger Fool Theory. That is, he believed that he could buy oil options at almost any price and still find a "Bigger Fool" to pay a higher price for them. The strategy was simple. If an oil stock rose in price on one day, we bought the options on the second day, and sold them on the third day. Henry was a great mentor, and his plan worked time after time. I just kept following Henry's lead and making more money. I now know why the system worked so well. When prices are at their highs, they tend to make higher highs. And, when they are at their lows, they tend to make lower lows. When a financial product is on fire, buying the highs is not such a bad idea. I made money over and over again by following Henry's strategy.

PEARL 1

When prices are trading at their highs, they tend to make higher highs, and when they are trading at their lows, they tend to make lower lows.

I had such success with my system that one day I received an invitation to lunch from the office manager. He had learned of my victories and asked me to join the firm as a broker. It was an idea that I had not previously entertained. I anticipated completing my law degree and entering the legal profession. But the firm offered me the chance to complete my degree at night and work for the brokerage house during the day. After much soul searching and arm twisting, I accepted the offer. However, I still planned to complete law school and eventually practice law. In the meantime, I would trade the markets. In fact, I finished law school, but never left the financial field. I eventually moved from Merrill Lynch but continued working for other firms. Trading the markets was my profession and I enjoyed it. That is, I enjoyed it until the crash of 1987. Then my life flipped upside down.

Most people in this business enjoy talking about the millions they make. I focus on the losses I have suffered and the lessons that I have learned. By using past experiences to gain insight and knowledge in the present, I am able to enjoy the rewards of trading for the long term. At the time of this writing, DTI has just ended an anniversary class. My students and I spent a week demonstrating how to turn losers into winners.

PEARL 2

Think of trading as a journey. Enjoy the trip and continuously learn from it.

THE AFTERMATH OF BLACK MONDAY

Not long after the crash, I left Oklahoma City and headed east to my hometown, Mobile, Alabama. Like a bird returning to its nest, if I had to start over, home was where I had to go. For some time, I struggled both financially and emotionally. I tried to regain my footing and my confidence. I traded, but my fear prevented me from making the right moves. I wanted to make money but was paralyzed by fear. I was going through a difficult time, but I continued to study the markets and work hard analyzing them.

Each morning when I slipped out of bed I felt defeated. I rued the seriousness of my mistake in 1987, and I constantly replayed the events of those terrible days in my mind. Then, one Sunday morning, an amazing thing happened. My wife Paula, our two sons, and I attended our regular Sunday sermon. Like hundreds of sermons before, I intended to sit in the pew, enjoy the music, listen politely to the words spoken, and go home. However, once the minister, George Mathison, began speaking, my plans changed.

George's words seemed to be aimed directly at me. Suddenly, I was no longer being a passive, polite listener; my attention was focused on every word that George spoke. He was talking about forgiveness and the need we all have to forgive ourselves for the many sins and errors that we have made and will continue to make every day. He talked about the joy that comes from allowing God to share our burdens and the sense of relief that is gained when we realize that we are not carrying the weight of our mistakes alone. George quoted some biblical scripture and summed up his message, "If God can forgive you, surely you can forgive yourself."

I heard that sermon many years ago and I do not remember the exact words spoken, but I will forever remember the essence of the message: Life is difficult on even the best of days. We will make mistakes because we are human and that is the nature of our mortality. However, if we do the best we can, that is all we can expect of ourselves.

George used an analogy that has helped me through the years. He suggested that we all treat our minds like tape recorders with reset buttons. Make the most of each day. Do our best and be the best person we can be. Then, at the end of the day, push the reset button. Do not replay mistakes over and over. Let yourself off the hook. The previous day is gone. Regardless of your wishes, the script of that day cannot be changed or altered. It is written and engraved in stone. Therefore, when the sun rises tomorrow, resolve to begin anew and do the best you can with the new day. Do not waste tomorrow worrying about yesterday.

When I left church that morning, I felt like a heavy load had been lifted from my shoulders. I had truly put my burden down and was able to go through the day living in the present and not the past. I enjoyed that ride home more than any that I have taken before or since. Gradually, with a lot of effort, patience, and persistence, I began applying that same concept that George taught me to my trading. When I made errors, I studied them and worked to change them and do better in the future. But I did not constantly relive them. I let them go and focused on the present and not the past. I began developing a different trading strategy, and central to that strategy was respect for risk. I still traded to make money, but with each order I executed, I considered the risk first. If the risk was too great or if I could not afford the potential loss, I did not take the trade. It was a new approach for me.

In addition to a new respect for risk, I made some other observations. With a clear head that was not burdened by mistakes of the past, I was free to see the markets in a new light. I realized that *time* was a major aspect of trading. In fact, it is one of the only constants in the market. Certain times of the day and of the year tend to be better for my style of trading than other times. Gaining that understanding allowed me to design a strategy around the ideal times for my approach. Hence, time of day became a key element of my trading tactics.

Another characteristic of the market that I carefully watched was *key numbers.* I realized that the market honors or respects some numbers or price points more than others. Therefore, I began studying key numbers, and they are another cornerstone of my trading strategy. I cannot imagine trading without them. I use them to chart my course through the market and determine entry points, exit points, profit targets, and stop/loss placement. Key numbers help me navigate through the market's maze and give me structure.

Finally, I began to watch statistical *market indicators* more carefully. Of course, I had always watched indicators when trading. But now I paid more attention. Remember, I was working to design a strategy that allowed me to trade during the best times for my approach. I also wanted a strategy that considered risk before focusing on profits. I never wanted to repeat the disaster of 1987. If I was going to continue to trade, I needed a plan and strategy that worked for me and my new ideals. After much struggle and effort, I have designed such a strategy. From a disaster, I developed a new attitude and methodology that helps me wage my personal war with the financial markets. That new attitude is summed up in the title of this book: *Trade to Win.*

As each year passes, I realize that I am a rare breed. I have been trading for decades and I am still standing. I have seen a lot of traders come and go. They have a system or a program that works in some specific environments and fails in others. In contrast, my strategy is dynamic and ever evolving. I constantly learn and change. In fact, the students that I have taught over the years have also educated me and because of them my game has gotten better and better. With my strategies, I have the ability to make money in bull or bear markets. I shift and adapt to changes in the world around me. And the environment has definitely changed over the years. Those who did not change with the times were left in the dark. I distinctly remember thinking in 1987 about how wonderful it would be if I had the ability to electronically place orders and hedge my positions via my computer. I envisioned that one day such a thing would be possible, but I had no idea of how such technology would evolve.

When I placed my first trade in the 1970s, I had to maneuver through the streets of Madrid, Spain. It was necessary for me to travel to the office and open my trading account. Once the account was open, I could have phoned orders to my broker, but individuals like me had little information about the daily goings-on of Wall Street. Even traders in the United States, unless they were professionals, did not have access to real-time market quotes. Therefore, the broker was the gatekeeper to the markets. Those seeking information contacted their broker. The broker did the research, made investment recommendations, and placed the trades. After making a trade, it was often days or even longer before verification of the order and the actual price at which the trade was made was known. In those days, the brokerage houses and market professionals controlled everything.

Within the range of my trading career, all of that has changed. When I joined this profession, I did not imagine the transformation that I personally would see and experience. Let me explain the revolution that has taken place in the financial markets with a couple of examples from my trading experiences.

REVOLUTIONS IN TECHNOLOGY AND COMMUNICATION

A sliver of sunlight shone beneath the heavy drapery as I slipped out of my comfortable but small bed a little before 7:00 AM, Paris time. I slowly stepped to the dainty Louis XV desk that sat near the window. Not really my style, but more than adequate space for my trading equipment: my PC was loaded with my trading platform, RoadMap™ software, and real-time market data feed. The Arc de Triomphe stood majestically across the street, but I did not stop to take a peek—I wanted to check on the financial markets. Was some exciting bull or bear action afoot? I turned on my computer and opened my trading programs. The wireless Internet at the four-star Splendid Etoile was working flawlessly and with a few clicks of my computer mouse, I had financial data from around the world at my fingertips. At a glance I determined the general mood of Asian, U.S., and European markets. In particular, I checked the trading price and daily trading range of the Dax futures, a German equity and futures index. That is the index I intended to trade.

I was visiting the Paris Air Show and had business to conduct, but before any appointments were kept, I wanted to make some money. After analyzing the markets for a few minutes, I identified key numbers, checked market indicators, and placed my orders. I traded for an hour or so, located some "low-hanging fruit," and plucked a little for myself. After moving a little of the market's money to my personal financial ledger, I closed my trading platform, and suited up for the other business at hand.

It was June 2007, and I was visiting one of the world's most exciting and beautiful cities. I was a stone's throw from the activity of the Champs Elysées and only a few steps from the Arc de Triomphe, but with modern technology I was able to trade successfully even though I was thousands of miles from my home, my office, and my daily trading routine. Some may say that Paris is for lovers, but for me, Paris is for traders!

Trading is mobile; if a geographic area has the right infrastructure, I can conduct my business—rain or shine, freezing or sultry—anywhere. A few months ago I traveled to Toronto, Canada, where winter is colder than cold. Snow and ice blanketed the city, giving it the look of a winter wonderland. For a southern boy accustomed to warm breezes drifting off the Gulf of Mexico, the weather was almost unbearable. But, in my warm and cozy hotel room, I was able to settle in and do some trading. I was visiting our northern neighbor to attend and speak at the Financial Forum. Because trading is such a huge part of my life, each morning during my stay I traded before heading to the show. I bought and sold both the S&P E-mini and the Dax futures. Moving through cyberspace, I was able to travel around the globe and make money. The Internet allowed me to electronically trade both the Chicago and Frankfurt markets.

On yet another occasion in recent months, I was enjoying the hospitality of the Brits. The cooler temperatures in London made the trip worthwhile. July in Mobile, Alabama, can be oppressively hot, and London offered a brief but pleasant reprieve. But I did not travel across the Atlantic to cool off. I came to attend the Farnborough Air Show. I serve on the Airport Authority in Mobile, and I was attending the show looking for business and opportunities for our city. Again, my hotel was ideal. Standing in sharp contrast to the French décor of the Splendid Etoile, the more contemporary but tasteful rooms at the Hilton Hyde Park offered all the amenities I could possibly need. With Internet capabilities, I easily connected to the financial world and was able to ply my trade. Again, my market of choice was the German Dax. For an hour I sat in my hotel room and did battle with the bulls and bears. As a trader, I was able to travel thousands of miles from home, spend part of my day ferreting out business for my hometown, and still have the capability to trade and make money. Such opportunities were unimaginable to me as a young broker. I was tied to a phone line and the office.

THE DARK AGES: CIRCA 1986

Laura, my personal assistant, and I arrived at the brokerage house early. Once in the door, Laura checked our equipment to be sure that all systems were up and ready to go when the opening bell rang on the exchange floor. That is, she carefully placed pencil and paper on the desk beside the phone. Our other trading tools consisted of a cumbersome data-feed system, a telephone with a dedicated line connected directly to a broker on the trading floor, and a stack of order tickets. Only professionals had access to real-time market data. The trading process was cumbersome, but we did not even realize it. Once Laura or I phoned our orders to the exchange floor, the on-site broker working at the exchange transmitted the order via hand signals to the pit trader for execution. At that time, I considered the speed-dial on my telephone to be a high-tech product. The ability to dial rapidly saved me both time and energy—especially since I placed dozens and dozens of calls to the floor each and every business day. Without the high-tech speed dial, my fingers would have been worn to nubs.

As the minutes passed throughout the day, I executed a barrage of orders. My trading style resembled that of a trigger-happy cowboy practicing his gun-handling skills in the Old West. I traded fast and furious. Just like Earp, I loaded my gun (order slips) and fired all the bullets as rapidly as possible, then reloaded and repeated. I followed the process over and over again. Hopefully, the burst of gunfire hit the target and some of bullets landed directly in the bull's eyes. I was so busy phoning in orders that I had little time for designing a strategy and no time for lunch or coffee. I felt as though I had to schedule time for a bathroom break. When I finally ended my day, my stack of orders stood many inches tall.

When each frantic session finally ended, I did not know for certain whether I had made money or lost it. It could take up to three days to know the fill price for an order. I knew that when I returned to the office in the morning, a stack of confirmation tickets from previous days' trading would be waiting for me. Each order that I had placed would have a confirmation slip in an envelope; the stack of confirmation slips could be a foot high. The tickets verified my fill data. There were no

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real-time balances available. My monthly account statement would eventually let me know whether my trades had been successful or had missed the target.

In those days, if I traveled for business or pleasure, I did not have the ability to trade. In fact, at home I could not trade. My brokerage office was my only trading center. Trading was the exclusive domain of professionals. That is, individuals had to rely on a brokerage house to handle the ordering process. Odds favored brokers, and those who wanted to play had to enter the market with them and play by their rules and on their turf.

Those who had the greatest market advantage were pit traders. They alone had the ability to place orders quickly and know immediately the price at which those orders were filled. Even as a professional, I had to wait hours or days for confirmations of some of my orders. Clients were even farther removed from the process. They received account information by mail, and the process was slow. In fact, generally all financial communication with clients traveled at a snail-like pace.

Think again about my recent trips to Paris, Toronto, and London. Thousands of miles from home, in a hotel room, I was trading. Technological advances in communication networks made it possible to receive real-time market data around the globe. And those same networks allowed me to view a trading platform, place my orders, and receive almost instantaneous fill data.

The French Revolution may have changed the political paradigm forever, but the communication and technological revolutions have just as dramatically changed the way most of us live and work. Wall Street professionals have seen dramatic changes. And the information and communication revolutions have enabled a new generation of traders to play the financial game. Online brokerage houses, electronic exchanges, and computerized trading platforms allow easy access to the financial markets for the Average Joe. For a small fee, data-feed providers transmit real-time market prices from exchanges in Europe, Asia, and the financial centers of the United States. This data travels to home offices and personal computers sitting in virtually every corner of the United States and across many parts of the world. In the Dark Ages, I relied on my "high-tech" telephone with its speed-dial function. Today, my laptop is the trading equipment that keeps me in touch with the world.

NEW GAMES, NEW TOYS

In addition to ease of execution, computers also allow traders to research companies, products, trading techniques, and strategies. Information is

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available like never before in the history of mankind. And millions of traders are taking advantage of these new opportunities. I teach trading. I operate a trading school in Mobile, Alabama, and traders from across the United States and some from other continents come to the school to learn the art of trading. Many are retiring and pursuing new careers, others want to learn to manage their own finances or understand how Wall Street operates. Regardless of their motivation, they understand that the market pays for knowledge and new technologies allow them to pursue their dreams.

Instead of a telephone line connected to a trading floor, my equipment consists of computer screens, online trading platforms, real-time data feeds and the equipment needed to transport financial information from around the world to my personal trading center. Color-coded trading software programs analyze and report market data in such a way that in a glance I can determine whether the bulls or the bears are winning the game. With real-time market numbers, I am able to make my trading decisions. I can trade stocks, options, bonds, futures indexes, metals, and energy—pretty much whatever I want. Once my decisions are made, I click my computer mouse and instantly receive my fill. I have the ability to trade at a leisurely pace. When I close my trading platform, I know my profit/loss data. No waiting for hours or days. Each morning I receive an e-mail account statement that verifies the trades I executed and notes my balance.

In addition to the mobility of my trading, my hours of operation have also expanded. Many financial products are traded on electronic exchanges that operate virtually 24 hours a day. Traders are no longer limited to trading only when the pit traders are standing on the exchange floors. Electronic markets and systems expand my trading horizons and allow me to trade virtually any time I choose. Thanks to technology, my world and that of millions of traders has improved. I was able to rise early in Paris and still trade because markets were available. If I so chose, I could have also returned in the evening after a nice meal in one of the city's finest restaurants and still found a market open and ready for business. Within the last few decades, the financial markets have truly undergone a revolution.

Only those able to adapt have survived. I am a survivor because I continuously evaluate the markets and respond to changes. As technology improves, I will also improve and change. Many students who visit my school want a black-and-white trading "system." They want to follow a set of rigid rules and make money. That is not reality. Reality is a dynamic market and the thrill of adjusting and adapting to it. Today, it is easier than ever before to learn about the financial markets and become a player.

BET ON YOURSELF

Without question, investors and traders have opportunities that they have never had before. Like Charlie Prince, the student who showed up in my office a few years ago seeking knowledge about the markets, traders today may choose to personally take the reins of their financial future and determine for themselves where to place investment dollars and how to allocate their assets. The broker or asset manager is no longer a gatekeeper to Wall Street. Sure, a broker is still a vital part of the trading process, but for many traders their broker serves more as their clearinghouse than their market expert or adviser. Millions of traders have online accounts, they do their own research, they make their own decisions, and they place their own trades electronically. Investors have the ability to steer their own financial destiny.

In addition to greater personal control, traders have many more choices. Economically and politically, the world is getting more integrated. China and Asia finance much of America's capitalistic lifestyle. Likewise, American dollars travel abroad seeking investment opportunities and fund much of the development and change in Third World nations. This cross-current of international interdependence increases both opportunities and risks; investing in emerging markets carries unique dangers but may also bring huge paybacks. As the trend toward globalization continues, more opportunities will be available to invest and trade foreign products with ease. On a regular basis, I trade the German Dax futures. If I chose, I could also trade the Nikkei in Japan, the Hang Seng in Hong Kong, or other foreign futures indexes. Some brokerage houses are already offering customers the chance to trade foreign equities—I don't mean via American depositary receipts (ADRs). Mastering the art of 24-hour trading is a must if you hope to achieve consistency with your trading.

Another recent change in trading is the expanded hours of operation available with electronic markets. When I first started trading the S&P futures, my trading day began when the pit traders were ready to go and the opening bell rang. I stopped trading at 3:15 PM CST, when the pit closed for the day. The Globex system operated by the Chicago Mercantile Exchange (and similar computerized trading networks run by other exchanges) have changed all of that. It is no longer necessary to trade only during the day session. Now electronic markets operate virtually around the clock. I often trade at night and enjoy trading in the early morning hours before most traders in Chicago or New York place their first order. Traders may choose to make money during the day, or they may decide to play a game of golf and trade while others sleep.

All of these changes do not come without risk. Those who choose to make their own trading and investing decisions must be able to accept the consequences of those decisions. They need to be educated and informed. Managing your own money and deciding how and where to trade and invest it are awesome tasks. Assuming that job without proper preparation and respect for the dangers involved is foolhardy.

THE CHALLENGE FOR TRADERS

Dealing with dynamic markets and advancing technology is not easy. One has to constantly stay abreast of innovations in both tools and products. No simple "system" will work in every market. In order to win, one must have a winning strategy and execute it properly.

Electronic exchanges, computerized order-entry systems, virtually 24-hour market accessibility—these are only a few of the significant technological changes that have taken place during the last two decades. The expanded hours of operation and easy access to global trading centers allow traders to choose their ideal time and place to trade. My dad, a proud veteran of World War II, was often asked when he had served in the military. His favorite reply was, "I was there when they needed 'em, not just when they were feeding 'em." By that he meant that he served during an active time when things were happening. He was in the real action. He served when the need was greatest. Trading is like that. To make the most money, you must be trading when there is real action. The great ease and market accessibility offered by modern technology allows traders the chance to get into the action and take advantage of powerful market moves around the clock and around the world.

Who knows what will happen in the future? What will trading be like two decades from now? I have no idea, but I do know that those who survive will be the ones who keep up with market modifications, who study, and who adapt to change. Old rules and outdated "systems" do not work now and will not work in the future.

REVIEW

I have been trading for almost three decades. In the life of a trader, that is a very long time. I have seen good days and bad, and I have watched the exchanges and brokerage houses evolve into modern, electronic marketplaces that are so user friendly the Average Joe can trade from his home, office, or hotel room. Furthermore, trading is now mobile, and traders may

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ply their craft in any geographical area of the world as long as they have access to the Internet.

Over the years I have traded an array of products, including equities, futures, commodities, precious metals, energy and fuels, exchange-traded funds (ETFs), options, and other financial products. In so doing, I have learned a great deal about Wall Street. I know that time, key numbers, and market indicators are important to any successful strategy. I also know that the art of trading consists of mastering many skills. It is necessary to have a strategy that works and to execute that strategy correctly. It is also important to control risk, stay emotionally balanced, and exercise good money management. The remainder of the book will deal with these various aspects of trading.