

# PART I

## Beginnings

**M**arch 10, 1961. Yes, to put these chronicles of recent trading years in proper perspective, we must first go back to the day I took my first breath. Long before we can talk about the failures and redemptions of my trading life, we must first journey through the years that would shape my view on life and mold a certain degree of perseverance that would become paramount in later years.

Actually, we must go back two additional years, to 1959, because although we all came into this world through no asking or effort of our own, I consider myself particularly blessed given that two years prior to my arrival, my parents had experienced a devastating still-birth. And although they've never discussed those trying days much with me, I do know that the baby was male and that my mother carried him to full term.

For many parents, such a devastating life event would understandably end attempts to further expand the family tree right there. Yet largely because my parents didn't want my sister, Judy, who had been born two years prior, to be an only child as my mother had been, they set aside their doubts and fears to try once again. Of course, life is never easy, and as they prepared for my arrival, my mother had the bad fortune of coming down with the chicken pox, which would complicate the delivery. Nevertheless, on March 10, 1961, and certainly through no effort of my own, I was brought into the world via a cesarean section in such a way that I was effectively isolated from the virus. Of course, I had no inkling at that time as to the events that led to that day, but later discoveries of my brother's premature death and

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my parents' subsequent perseverance would clearly help shape my views on life and its accompanying struggles.

### Early Tunnels of Life

It soon became evident that a mix of struggles, accomplishments, and setbacks would accompany me throughout my life, with most of the setbacks during my youth surfacing in the form of health battles due to a compromised immune system. Although I survived the birth without complication, my first 10 years would include multiple visits to doctors and hospitals as the result of an asthmatic condition and various allergies that required frequent shots and occasional stays in oxygen tents. Of course, I also picked up all the typical childhood illnesses at that time, including the mumps, measles, and—yes, finally—the chicken pox in the second grade.

My teen years were equally challenging for my parents and myself as I seemed to be a magnet for a variety of obstacles, setbacks, and embarrassments, some self-inflicted, others outside of my control. Although I hated going through what my future wife would later call these “tunnels of life,” the experiences served to install a certain degree of perseverance and perspective pertaining to the concept of “time” that would later serve me well in my future trading years. Examples of my early “tunnels” include:

- Repeatedly being ridiculed as the son of the assistant superintendent, often having to sit on the floor on the bus.
- Shooting at the wrong basket in a junior high school basketball game. *One not-so-funny aspect of that event was that I missed the first shot, rebounded it, and made the next one. Imagine the official scorer trying to figure out if I should be credited with a rebound!*
- Being hazed as a high school freshman during basketball road trips.
- Bombing in front of a full auditorium while performing a trumpet solo for which I hadn't adequately practiced. *(This one was clearly a self-inflicted wound that would later have strong trading parallels.)*
- Having any degree of success, including winning the sixth grade science fair, challenged by a few nitwits as being illegitimate due to my father's position. *(Another eerie parallel to later trading successes.)*

- Missing half of my junior and senior high school years due to an unrelenting mononucleosis-type virus.
- Tearing my ankle ligaments as I tried to return to basketball during my senior year only to miss our school's run toward the state championship.
- Being ridiculed again, this time in college because I refused to drink or do drugs in an era when many attended school solely for that purpose.

I could list more, yet my point is like so many others, I was faced with various challenges that felt so very painful at the time, yet in later years would seem nothing more than insignificant bumps in the road thanks to the combination of time and perspective. Although I could list various successes such as honor societies, eagle scout attainment, and others, I prefer to emphasize those aspects that most contributed to shaping my future years: the tunnels.

## A Late Bloomer

Another aspect to my life that would become clear was that I seemed to be what many would call a late bloomer. Perhaps it was because my mind or body simply needed more time to mature than others or perhaps because I underestimated the required preparation time required to accomplish anything significant in life. *With respect to the latter, one of my greatest weaknesses to this very day is a general lack of patience, and this Achilles' heel has repeatedly gotten me into trouble over the years, especially as I began my trading career.* It would also become clear that I'd typically emerge from each tunnel stronger and with greater vibrancy and desire to succeed as well as an improved perspective on life.

Said another way, I loved coming back from defeat. For example, years after shooting at the wrong basket, being hazed on road trips, tearing my ankle, and essentially lacking any innate basketball talent, I'd eventually worked my tail off to become a fairly decent player in my college years. One example occurred during the summer of 1982, when I returned to my hometown to score 27 points on a "couldn't-miss" 13-for-14 shooting night where I outscored, outthustled, and generally outplayed some of my very peers who had hazed me in prior years, a few of whom left the court that night in utter disbelief. This late-blooming trait would go on to accompany me throughout my life and especially throughout my trading career.

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### Early Vocations

From the outset, I was a finance guy. As early as age 10, there are pictures of me at our kitchen table helping my father balance his books with a giant calculator that took up half the table. I also loved brainteasers and jigsaw puzzles, and I was pretty good at them. *To this day, both my mother and wife will tell you that I can find a missing puzzle piece in seconds.* As high school evolved into college and college evolved into early career years, finance would dictate much of my life in the context of initial vocations. In 1983, I graduated from a business college summa cum laude with a major in accounting, and after rejecting offers from a number of large accounting firms, I accepted a position with a large corporation in the telecommunications industry that emphasized the early and continuous development of future executive leaders.

From there, I spent approximately 16 years climbing the corporate ladder in two firms and living in a variety of places, and at 37, I was blessed to have reached a career level with a high degree of scope and responsibility. From a corporate perspective, I had it all, including position, stature, a company car, and an executive home. I had even recently completed an aggressive two-year Executive MBA program at a leading university. Still, I felt that something was missing. The professional spark that had ignited my earlier career years was no longer there, and I felt that if I was going to make a career change, I'd better do it soon before time as age would zap the energy required to pursue a new field.

It was during these soul-searching years that the Internet and access to the financial markets were combining to provide an inviting combination for one who embraced the combination of finance, computers, numbers, brainteasers, and challenge. The more I learned about the challenges and possibilities of trading the financial markets for a primary or secondary career, the more I realized that doing so would reflect in the ultimate pay for performance endeavor, where one could be compensated solely based upon one's ability. *As I would later tell people, though, it's also one of the only fields where if you perform poorly, you pay your employer!* I'd grown tired of modest cost-of-living raises amid occasional promotions, and getting paid 100 percent based on performance seemed to be an optimal compensation structure for one who was confident of his abilities while also satisfying a strong entrepreneurial craving that had accompanied me throughout my life. Said another way, "I was bitten by the bug."

## Don't Quit Your Day Job

*At this point in our journey, if you feel a similar urge to leave your current stable vocation to pursue trading the financial markets, **think long, hard, and long again**. The rocky path I'm about to lay out is meant to fully disclose the ramifications of my choice, which although ultimately leading to success in later years, resulted in a difficult, soul-searching journey that included believing I'd made the worst decision of my life.*

In 1999, at the age of 38 as primary wage earner and father of a young family I had established a six-month track record to prove to my wife that I could make at least as much as I was making in my current career as the result of part-time trading. Believing that my trading results had been suboptimized due to the lack of full-time focus, I made the decision to leave my safe career as a corporate executive to enter the world of trading on a full-time basis.

The immediate result? Well, in financial terms, during the first month, I lost everything I'd earned from trading in the previous several months as I broke every rule in the book trying to force profits. Far more importantly, in life terms, I felt I'd lost anything and everything I gained in 38 years, including the near-term and long-term future of those most dear to me: my wife of 14 years and my two children, ages 7 and 10.

I can't stress enough the inner turmoil that I experienced during those initial months, which was **only** countered by the even greater powerful support of love, family, and God. Despite my personal selfishness and shortsightedness that placed my own career aspirations ahead of what was likely best for my family at the time, grace and support abounded everywhere and forever changed my life's priorities. And although much of that time was admittedly a blur, I do recall hitting my lowest low—what I call my personal abyss—one night as I fell on my knees in tears and asked God to help a soul who had gotten too far ahead of himself for his own good.

## Out of the Abyss

The good thing—if there is one—about feeling that you've hit rock bottom, is that it's, well, the **bottom**. In other words, there's only one direction one can move from the bottom, and that's up. And although I believed at the time that the climb out of the abyss was slower than I'd like, I can now say with the utmost confidence that the series of events that would ultimately pull me out of life's low began to occur at startling speed.

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These events begin and end with my family, and specifically, with my wife, Debra, who had always supported every one of my career decisions, regardless of relocation and personal uprooting. She was—and continues to be—my rock and my best friend. And what a rock she was during that time as she convinced me all was not lost, that she would still love me even if we were dirt poor, and that things would work out. Then came a call out of the blue from my parents, who sensed something was wrong, and who offered me their vacant house on Cape Cod (*or as known in these parts, simply the Cape*) should I choose to downsize and return to my New England roots. The home had actually previously belonged to my grandparents, yet it had stood vacant in recent years, with my aging grandmother living with my parents during her final years. Ironically, it was also a home that Gram wanted to keep in the family, yet one that she knew my folks would likely sell upon her passing.

As I was still digesting my self-served humble pie, and despite an ironclad son-versus-parent independence streak I had intentionally forged, I considered the offer and chose to fly back to Boston in the dead of winter to check out the house which had been closed for a few years. The next sequence of events simply border on indescribable, if not surreal.

First, the day was a Friday, and as I had traded poorly that day, I just wanted to sulk. Second, I hate flying, and the two Midwest cities from which I'd have to depart and change planes were experiencing near-blizzard conditions. Nevertheless, just as I was about to postpone the trip for these reasons and more, I felt a Presence that just said, "Get on the darn plane." And so, I did, cursing internally all the way.

I somehow managed to make it to Boston that night without ripping the armrests out of their sockets, and once I landed, I decided to see Gram at my parents' home before heading to the Cape the next morning to check out the house. Although healthy most of her life, Gram had gone downhill quickly in recent days, and I had to communicate with her via a whiteboard that simply said something like, "house" and "checking it out." And although I didn't know if she fully understood me, she seemed to grasp at least some of what I was saying.

The next morning, I headed to the Cape house, which was small and musty as expected. As we were pulling back the carpets and I was internally deciding to make the move, the phone rang with news that Gram had passed away at the age of 98, but not before—according to

firsthand accounts—smiling for the first time in weeks and waving good-bye. Simply put, she was at peace, and to this day, I sense with great conviction that she held on until she could give her grandson and his family her most prized possession.

Yes, this book is about trading. Yet none of these remaining pages would be possible had it not been for the “rescue” team that circled and rallied around me, a team that would forever change my views on the importance of a strong network of family and friends.

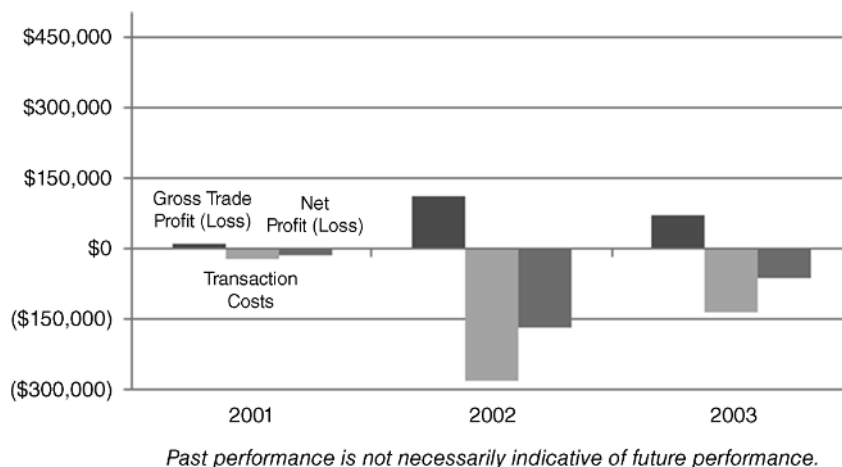
## Evolving Perspectives

The next few years would bring about additional challenges, including selling our newly built executive dream home for a loss, relocating my family to an older house about one-third the size, and dealing with two major health crises. On the health front, during one four-month stretch, we almost lost Deb to a massively burst appendix and subsequent infection, and then we learned that our younger daughter, Chelsea, would have to spend the rest of her life dealing with type 1 diabetes. There were also the continual starts and misfires of my trading career as stress, lack of focus, commitment, and skill refinement combined to produce inconsistent results that didn’t really amount to much and that led to a growing sense that trading would perhaps best be suited as a secondary pursuit with a reduced stress level versus primary source of income.

I soon discovered that, for me, optimal trading had its strongest probability of success if I had another revenue stream—such as my spouse’s wages or other supplemental income—to put food on the table as long as such effort didn’t impede on my ability to monitor and participate in the markets. *Over the years, I’ve frankly found that balancing the need for undivided trading focus with managing a separate income stream to lessen any performance-related stress to be one of a trader’s greatest paradoxes.* As such, I chose to maintain my corporate connections and often found myself consulting or working part-time in my former industry as I continued to hone my trading skills. And such was the case throughout the early to mid-2000s as we were able to better balance trading and nontrading income flows and resurrect our former years of stability and hope for the future.

During this time of improved balance and perspective, the earlier seeds of trading failure and frustration were slowly but steadily beginning to establish a root structure that would later bear fruit.

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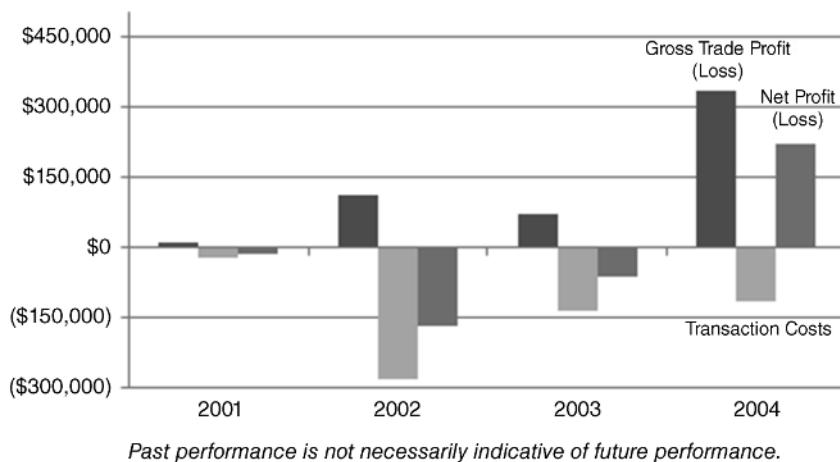
**FIGURE 1.1 Futures Account Performance (All Accounts), 2001–2003**

Along the way, I'd also "graduated" from successful stock and exchange-traded fund trading—where I'd earned more than \$300,000 in 2000—to equity index futures in 2001. The move to futures trading, although reflecting a natural progression, was clearly my most difficult largely due to an inappropriate transaction cost structure for one who traded frequently and who used multiple trade entries and exits to manage risk. Specifically, as shown in Figure 1.1, although my precommission results were positive, my net results in the first three years of futures trading were negative.

The negative net results were due to implementing an effective "wholesaling" business approach, yet doing so while incurring transaction costs (commissions) at retail prices. As any business manager will tell you, this is the sure ticket to net financial loss. As such, I researched various options to reduce costs and eventually discovered a startling fact that wasn't widely disclosed to the trading public by brokers: the ability to substantially cut costs by (1) leasing an exchange seat and (2) negotiating volume discounts. So, in early 2004 I began leasing an exchange seat and negotiating lower brokerage commissions. The result on my bottom line was immediate and profound, and by the end of the 2004, the results of the same strategy employed in the previous three years were as shown in Figure 1.2.



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**FIGURE 1.2 Futures Account Performance (All Accounts), 2001–2004**

As satisfied as I was with the cost structure changes and results, I admit I was equally dismayed that I had to discover the solution much on my own and at great initial cost. The last thing brokers want to see is reduced commission revenue, so wholesale pricing isn't typically something that's advertised. Yet, as will be the theme throughout these pages, **please learn from my mistakes**. If learning the details of my journey does nothing other than encourage current traders to pursue lower-cost options via negotiated commissions and exchange leases, these writings will have paid for themselves in spades.

During this time I also learned of another little-known fact: the ability to actively manage one's retirement fund via a self-directed futures option provided by various custodians. Although I clearly don't advocate such an option for traders who haven't acquired the skill, such an alternative may be a bona fide alternative for proven traders who desire to take control of their longer-term portfolio. In my case, I believed that my skill had evolved to a point where I could do just that, and as such, my investment strategy evolved into one that emphasized having a nonmarket income stream to provide immediate cash flow and pay bills while using my improving trading skills to actively manage my retirement fund for the future. In fact, such a strategy is similar to the one used by comedian Jay Leno, who once

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indicated that he used income received from stand-up comedy to pay expenses, while using his television revenues to build his retirement nest egg.

### A Sporting Chance

The next few years would result in a fairly effective mix of trading and non-market-related income, and the balance seemed to be just what the doctor ordered after the turmoil and misfires of 2001 through 2003. Nevertheless, as 2007 was drawing to a close and the trading motor seemed to be running smoothly, I still believed that I wasn't living up to my true potential as a trader as the result of various distractions and thus chose to significantly step up the pace, intensity, and motivation. My solution was to dedicate myself in an extreme manner to see how far and fast I could grow my retirement fund, which by that time had grown slowly but steadily from about \$247,000 at the beginning of 2001 to just over \$700,000 by the end of 2007. My goal was simple: Put whatever trading skill I'd acquired squarely and fully on the line and aggressively grow my fund by \$1 million in 12 months, as a part of a longer-term objective of attaining a \$2.5 million balance from which we could draw in our waning years, while not relying on such income for immediate cash flow needs. Simply put, for someone who had taught, spoken, and written extensively about the financial markets, it was time for me to put up or shut up. Or, in the context of my earlier basketball struggles and ultimate success, it was time for me to set aside all the prior peer criticism, internal questioning, lack of preparation and discipline, initiation hazing, and torn ankles to have that 13-for-14 shooting night, if nothing else than to prove to myself what I believed I knew all along. It was time for me to take that sporting chance, synchronize my internal rhythm with that of the market, and leave it **all** on the court.

Speaking of sport, as we prepare to review the journal entries that make up much of the rest of this book, you'll notice that I firmly believe that trading the financial markets is highly analogous to a competitive performance sport, albeit a mental one. *In fact, we could likely take any sports axiom and by twisting a few words apply it to trading.* As such, I often used various sporting terms such as *races*, *fights*, and *comebacks* throughout 2008 to keep my mind appropriately focused and motivated. I also uncovered a few additional motivational tools and techniques as the result of playing poker and other life

experiences that you'll discover as we move ahead. And although such references may at first appear on the corny side, you'll quickly learn how important these perspectives were in generating a sustained level of motivation that can often only come from within.

Ultimately, I believe that one has to discover what best drives one's inner self. For example, I know that in my case, I trade far better when energized, focused, motivated, aggressive, and at least slightly ticked off, even if it means manufacturing reasons to be ticked off. One strong example includes intentionally exaggerating the mental effect of losses, which are perfectly normal and an expected expense in a business where the lesser probability outcome will occur at times, whether that probability is statistical or simply the result of occasionally being off our game. This exaggeration and resulting personal anguish allows me to tighten up my game such that I can nip bad habits quickly, and you'll see this tendency throughout the journal. Said another way, I want to be the frog that's dropped in boiling water and jumps out versus the one placed in cool water that dies a slow death as the heat is slowly turned up. Although such a position may go against the traditional grain in the industry that dictates not trading on emotion, I can say with full conviction and based on years of records that I personally trade far worse when emotion and aggression are absent as opposed to channeling such aggression in a positive manner that's fully aligned with the market and counter to those trading **incorrectly** on emotion. *My guess is if you ask quarterback Tom Brady how he prepares for each game, he'll probably tell you that he's still ticked off at being a low draft choice and thus he has something to prove each and every day. For him, such a mind-set has paved his personal road to consistent greatness.*

Further, I firmly believe that if and when a trader has moved past the difficult learning curve stage, the only three things preventing success are focus, motivation, and simply showing up, especially during those "inconvenient" times when others are getting that extra hour of rest. *Been there, done that, and still visit the neighborhood from time to time.* For me, approaching trading as a mental sport isn't just a convenient analogy; rather, it's an absolutely necessary frame of mind. Otherwise, I'd simply be going through the motions and leaving far too much on the table, as I did at various points in my career.

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So, let's lace up the shoes and review the detailed journal entries beginning in July 2008, at which point I was slightly ahead of the required \$1 million pace and the game was beginning to heat up.

