Got Your Trading Style Figured Out?

Now, Become Joe Freaking Lightning

About a year and a half ago (October 2002), I wrote an article for ***SFO*** magazine, entitled "The Trading Game," in which readers were led through a journey meant to help one trader develop a game plan of her own by finding her personal trading style. It was an important journey, because traders who are unable to identify their particular trading style typically will be all over the map in their trading and unsuccessful in their scattered attempts. Finding the game plan is one aspect of discipline, and an important one, and this article takes the subject of discipline one step further down the path.

Let's start with the basics. There are really two groups of traders with whom I've dealt. The first group of traders – those who actually have found their trading game – generally have an eye for chart patterns, trade certain types of stocks, trade certain types of time frames with which they feel comfortable and possess good discipline. But the second group of traders, because they are in the majority, is the one that has caught more of my attention. They, too, can have an exceptional eye for the charts, know the patterns, and so on (just like their "cousins" in the first group), but the one missing ingredient in their makeup is discipline. Nonetheless, it quite truly takes but a few small changes to move their trading accounts from less-than-successful to positive outcomes.

Thus, this article is for those traders that have already found their trading game or "style" – those who basically have all their ducks in a row, but for some reason are just not making it happen financially. What we're covering in this article are those things that have worked for me and for others I have personally mentored, no matter their style.

By Christopher Terry

Take a Bow

If you have been holding your own and not losing money, but you're not making money either, at least do one thing – pat yourself on the back for staying in the game and keeping that fire alive. It may, in fact, take just a few adjustments to become successful in trading – relative to where you are today.

I personally can still remember the many times I have been chopped up during a low-volume, range-bound market, and at the end of the day, I was both mentally and financially drained. My point is that if traders can just control one aspect of their work – just one – and redirect their thinking, it would change the bottom line. Their "fire" would be rekindled.

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By the way, the market doesn't care if you're a brand new trader or manage $100 million or are a noted "Market Wizard." The market will "pick on" anyone who lacks in the area of discipline and will burn out his flame. And, quite honestly, the difference between the undisciplined trader and somebody who has already lost his trading account due to a lack of discipline is merely time. Taking this weakness and making it a strength is the key asset upon which to build. Some of the keys to successful trading come from self-improvement, personal growth and a change of attitude. By taking the time to add discipline to his game, a trader's confidence will peak, and he will start to eliminate any fears of executing trades and, yes, even of having losing trades.

Like many traders, I used to spend the bulk of my time in developing the skill of charting and technical analysis and very little time working on what it really took to become a well-balanced trader. I'm not unusual at all. I found that I also needed to work on myself by investing time in reading books that stress positive mental attitude. Authors such as Napoleon Hill, Norman Vincent Peale and Anthony Robbins help keep our minds open, positive and clear so that we are able to read the markets and ourselves in any type of trading environment. Having an understanding of ourselves also can help protect against getting out of control and into trouble.

Learning from Each Other

At one time, I was a partner with one of the largest volume traders in the business. For the sake of this article, we'll call him Dan. He and I became partners and worked together for a year, during which time we traded a very large proprietary account for a firm. The CEO of a well-respected broker/dealer, who believed that Dan and I would make an incredible duo together, teamed us up. At the time we did, and after a year, I chose to go a separate direction with my career and build a business with my mentor and now current partner, Linda Raschke. But that's a longer story for another day.

Dan taught me some basics that will stick with me forever. I opened my brain to his suggestions because he was such a huge and successful trader and had made great sums of money over the years. So, as independent as I was, I felt I had no other choice but to open up and listen. Interestingly, my current partner, Linda, had been preaching the same tenets for years as well. As they say, there is strength in numbers. Discipline was the battle cry for both of them.

In the year that Dan and I worked together, we were able to learn each other's strengths and weaknesses. My strengths were charting and market timing, and my weaknesses were overtrading and boredom trading. I used to click the mouse button like I was playing a video game. Dan's weaknesses were charting and market timing, but his strengths were "scalping" by reading the tape and knowing when to get out of a trade either when a profit objective was achieved or, conversely, when it was not working. In fact, his success came from high-volume scalping, and he became successful because his gut feel for the market allowed his moves to be like lightening.

Linda Raschke's strength was, and is, in knowing when not to be in the market and, like Dan, she knows when to exit it when the time is right. Her market timing (e.g., when to enter a trade when to scalp and when to swing for the fences) is also highly developed after many years of trading. Also lightening fast.

So, what was I able to glean from the two of them? I learned when not to be in the market, when to scalp on a smaller scale, when to fully load up in a position, and when to get out when a trade wasn't working by reading the tape.

Just to clarify, reading the tape does not only mean, MSFT has 2000 bid @ .23 and 5000 offered at .25, and so on; it means understanding which stocks are strongest or weakest relative to the market indexes, and what the internals are telling us – TRIN TICK advancers/decliners, or volume. For example, how are the indexes trading in relation to one another – did S&P make a new low and Nasdaq make a higher low, or did the three indexes make new afternoon lows with high minus NYSE TICK readings?

For me, seeing 2000 to buy at .23 and 5000 offered at .23 is meaningless to the bigger picture trend. The days of flipping for "teenies" (one-sixteenths) or quarters are over, because each tick in price is one penny. So, I took these disciplines of knowing when not to be in the market and knowing when to get out, and combined them with my ability to time a market. I found a recipe that works well for me.

Introducing "Joe Freaking Lightening"

This article comes down to a term that I have coined for our website members – "Joe Freaking Lightening" or "JFL." Dan used to say to me, "Chris, you have to be Joe Freaking Lightening. When you don't see it happening, get out, forget it, and go to the next trade." We would trade 5,000 lots to 50,000 lots, and when you're trading 50,000 lots, losing 10 cents is $5,000. Listen, it doesn't make any difference how large the account size is; $5,000 plain and simple is a lot of money.

But the point is that each time we pulled the trigger, we had to know why we were pulling the trigger. Otherwise, the bottom-line commission costs would eat up our account quickly. There was no room to make mistakes, so we would plan each trade and find a proper reason to be in the market and in the trade. Were the NYSE TICKS at an extreme high? Were the indexes showing a sell divergence because the Dow was not confirming the S&P's breakout to new highs? We would short the weakest ones in the Dow that were not confirming. "Short 20k IBM, short 50k GE, short 30k MSFT," we would scream to our assistant.

The message? It's vital for each and every one of you to pick your spots. Who, what, when, where, why and how… ask these questions of yourself before you pull that trigger to trade. That's the discipline it takes.

Look for Your Spot and Then Do Something about It

Everyone has a different style of trading, one that makes him comfortable. But once you pick your spot in an educated way, do something about it. Maybe you see a sell divergence in S&P 15-minute charts, or maybe you're looking for the market to correct back down to its 15-minute chart, 20-period Exponential Moving Average (EMA). Why not look for the weakest shares that you can short until S&P retraces down to its 20 EMA, and by "reading the tape," look for that push up in the NYSE TICKS for your short entries? Be "Joe Freaking Lightening," get into a short, and get the trades on. Obviously, the same would be true for the long situation, but reversed.

Avoid the "I missed it because" and the ten other excuses that follow. So often I hear, "Chris I woulda coulda shoulda been short/long the market, but I missed it for .02 cents," or "I didn't get filled on the offer." Get short (or long) something, and commit to the trade if there is a good spot for a trade entry.

The bottom line is this — get something on. Dan used to say, "The market 'pennied' me," which basically meant he was looking for the ultimate price and was drilling down on every little tick, fighting for every little penny. In doing so, he would miss the trade.

Become "Joe Freaking Lightening." You want to be extremely fast getting into the market when your price zone is in sight, and be even faster getting out. Be fast to get into the trade that sets up, fire away, become a sniper and pick your spot.

Non-Trending Markets Don't Stop Joe

Many times the markets are not trending in any one direction. What then? Perhaps you want to pick a few times during the course of a trading day where the markets are at an extreme level in the TICKS or shows divergence on 5-minute charts. So, pick your spot, and if the trade is immediately working for you, it tells you that you are going to have a good scalp trade on your hands – perhaps making your 25-50 cents in a stock or two to three points (plus or minus) in the S&P, or something similar. Again, become Joe Freaking Lightening. If the trade is working in your favor and you feel the price movement is limited, then take the profit off the table and look for the next trade. When in a scalping environment, think Joe Freaking Lightening and be fast to pull that trigger for entry or exit, profit or loss.

What If It Doesn't Go Your Way?

If the trade stalls out – you shorted when the TICKS were pushing + 600, + 700, or +800, and now TICKS came all the way back to + 200, the indexes came back in, and your stock has not budged (or shorted SPY or S&P futures and TICKS did the same), your SPY/futures trade is not working.

At this point, you have to immediately ask yourself, "Who am I?" And, then quickly scream to yourself, "I AM JOE FREAKING LIGHTENING," and abandon the trade. Walk away. The trade did not work out. But your exit did. I have found that too many traders will take a stop loss because they keep a percentage or dollar stop loss. I absolutely do not agree with that mentality. Again, if something isn't going your way and you sense it, then exit and save the money you would have lost if you were stopped out.

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Stop hoping, praying, or staring into oblivion at your screen and thinking, "Let me give it another minute or two." Before you know it, you are down 50 cents because TICKS rallied back from +200 (that was your time to get out), and it's back at + 700 while the indexes are taking out new highs. Stop the nonsense. Don't fall asleep at the wheel. Rather, think as if you're trading 50,000 lots. And if you are, then you better pay even more attention to it.

Please understand that I am not suggesting *at all* that you trade 50 to 100 times a day. On the contrary, traders generally would be best advised to decrease the frequency with which they trade. Avoiding overtrading will lower your commission costs and decrease your risk exposure in a market that is chopping around with no place to go. Again, it should be emphasized that traders should pick their spots on a non-trending day – perhaps taking note of extremes in the ticks or by spotting price divergences in three indexes and seeing what stocks are not confirming, etc. These are but a few things that you can be on the lookout for.

No Scalping on Trend Days

And, then there are "trend days," those days when we have identified a trend. In a typical month, we get to see two to three good trending days in the S&P. When everything, for example, is telling us uptrend (the market closes on highs, and the rest of our complete analysis tells us that it's not just a hunch), the game is to stick with the trend for the day.

In an up trending environment, one would be insane to scalp the market like "Joe Freaking Lightening." The game instead would be to time the buys based on the retracements in the S&P as well as in the NYSE TICKS; then and only then, we could become Joe Freaking Lightening and enter when those TICKS flush down for an entry.

In a trending environment, we know that normally the S&P will rally from 9:30 EST into roughly noon. During that time, there will be a few minor retracements that a trader will be able to enter for a buy. The buy entries on these minor retracements usually can be timed using the NYSE TICK. When the S&P has these minor retracements and the ticks also have retraced signaling a buy, what do you do? You have to be Joe Freaking Lightening and enter the market on the buy side! If the markets turn and rally and the ticks are going into an overbought position, you have to be like lightening to exit as well.

A trader typically can keep a core position for the morning session and scale out of a portion of them into the rally and then buy and add on further retracements. Stay long into noon; from noon to about two, generally the markets will retrace at least a third of the morning range. When you see the market resume its trend in the afternoon session, you want to be JFL and get back on board.

Remember, a trader has to have confidence in his analysis and know without a shadow of a doubt that the trade he is entering or exiting is the right one, and to do that he has to have the discipline to spend the time needed to analyze market situations and react quickly and properly. Making random boredom trades is pure folly. If nothing is lining up, have the discipline to stand aside until they do so unequivocally.

Again, each trader has his or her own approach to the market and a comfort level with equities and indices and time frames that may not match another trader's. No matter. Discipline, knowing oneself, and improving reaction time to enter and exit the market like Joe Freaking Lightening will help keep you in the trading game for the long term. And it will keep the fire in your belly.

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