

# My Fairy God Trader

THE STORY OF THE PIP AUCTION GAME

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"Have you ever heard the story of the Pip Auction Game?" the visitor asked.

"No," I replied.

"Then I am going to share it with you," he said, and he locked his eyes on mine. "And it is going to change your life forever."

I didn't know it then, but he was right. This is my story.

#### For Mitchell Cox

#### Trader and Friend

Mitchell was a 1 on 1 student in 2003. He turned the corner into profitable trading in early 2004, and took a trip to Thailand, where he intended to settle down and live to get away from the frantic pace of life as a mortgage broker.

He died in Thailand in an accident.

Lest you or I feel sorry for Mitchell, it is worth remembering that he spent the last year of his life doing what he wanted to do, and dedicating himself to creating a life that would be more fulfilling and more worth living. We could all learn a lesson from Mitchell.

Live each day as if it were your only and last time to improve yourself, and to work on creating the life you want.

#### Disclaimer

I have absolutely no idea who you are, what you do for a living, if you are trading only currency, or futures, or livestock, beanie babies, cold cereal, your best friend's vinyl Rush collection (please, does anyone else think that Getty Lee sounds like a dying cow?), or your wife's fine china.

I do know that if you have traded currencies, that you have probably lost some money here and there, and I hope this ebook is of some help to you. If you have not—if you have never lost money trading currencies, then I want you to close this ebook, open your trading account, produce last month's report, and then shoot yourself.

Okay, I didn't mean that. You don't have to produce last month's report.

Oh, and none of the people depicted in this ebook are real. Well, I'm real. And my wife is too. And my cat, although my cat is technically not "people."



#### The Visitor

I had just lost another account. It was 3:22 am, Eastern Daylight Time, drizzly rain pelted the air conditioner hanging out the side window, my cat nuzzled against my left leg, and I thought I felt my heart pounding its way through my rib cage, in that dull thumping that you feel when you feel so bad you don't know what to do next.

I would have to talk to my wife. Explain it again. Explain that I knew what I was doing, but I just didn't trade right this time. Or that if I had just held on a little bit longer to the long EUR position, that I could have closed it at a profit. Or if I had just dumped the damn thing when I was down 10 pips. Or if I had just taken the 10 pips that I'd been given in the first place. Or if I had just tweaked my entry system a bit more.

I had arrived at the point of being such a poor trader that the reasons behind my failings were nearly too great to count, and none of them quite made any sense any more. Could I really just change any one of these things? Even worse, could I expect to be able to change *every one* of my weaknesses as a trader?

With my head in my hands, I began to wonder if I would have to do what had become my greatest fear since beginning: I would have to go out and get a job again.

This brought a single tear to my eye and the thought: I have failed at this again. I have just lost \$60,000, and I am never going to make it back again.

And then I heard a tapping on the window.

Leaning over so that I could see outside the window of my small upstairs office, I saw a puffy, round, red-cheeked face and two bulging eyes, and a happy, contagious grin. One pudgy finger was still tapping on the window.

I grinned back, despite the fact that there was a fat man tapping on my window, and I had no idea how he was propped up. Or why he was tapping on my window.

Raising the window, I asked, "Can I help you with something?"

"Yes," he replied. He had a deep voice. He was still grinning. I was now grinning back. "It's sort of wet out here."

The grin was so powerful, and the event so startling, that I held out a hand, fixed my knees and legs against the lower part of the window, and helped this enormous man into my house through the window of my upstairs office.

He hardly fit. And I could barely hold on to him — his hand was wet, his body was huge, the window was small, and he was, frankly, the least coordinated and fattest man that I had ever met. I swear that as I tugged and he pulled, and as his body fell over the side of the windowsill with a crash (not loud enough yet to wake my wife), I speculated that the floor of the office might not be able to hold his giant frame.

I am sure he weighed at least 350 pounds. When he brushed himself off, I realized that this man, despite his smile, also stood nearly 7 feet tall, was wearing an untucked (and dirty) dress shirt, a pair of suit pants, black shiny shoes, and that he was probably now going to kill me. And possibly eat me. It was also impossible not to notice that attached to this man's back were a pair of feathered, white wings—large enough to see when he was facing me, and apparently not large enough to help him get his body through my window.

I was still smiling back when he started to speak in a deep southern drawl.

"I'm happy you let me in, young man," he started, "I was getting wet out there and it's usually much harder to get inside. Generally, I'm waiting outside for hours before I can convince a trader to let me in."

There was only one question that I could possibly ask. "Who are you?" I asked, convinced at this point that he was not intent on killing me. Still, I only felt a little bit more comfortable.

"Why, Rob," he said, "I'm your Fairy God Trader, and I'm here to straighten you out, boy, because," and he let out a deep, insulting (but paradoxically happy) grunt as he continued, "you're just about the piss-poorest trader I've ever met in my entire life. And I've been in the Fairy God Trader circuit for 100 years now."

What could I say? Even if he were there to eat me, or at the least kill me, he *did* have wings, and it stood to reason that Fairy God Traders had wings, and he did speak the truth. My name *was* Rob, and I was the worst trader I'd ever met. I was so bad that I had dumped 4 accounts, nearly \$100,000 in my life savings, and still didn't quite understand why. Sheez, just thinking about it made me realize that I should have just gone to Vegas and bet on red.

Then he spoke again. "Red or black, my boy, it don't matter. You gonna lose eventually. Vegas or FXCM, it don't make no difference. The way you been tradin', you were fixin' to lose it all anyways."

I shrugged. He was right. I felt the floor of my upstairs office sag a bit in his direction. Now I realized that not only was this man a winged, mind-reading Fairy God Trader, but that if he *didn't* kill me and eat me, we were both going to fall through the floor anyway, crush my wife, and *then* I was going to die.



#### **My Fairy God Trader**

"Why are you here?" I asked.

"Have you ever heard the Story of the Pip Auction Game?"

"No," I replied.

"Then I am going to share it with you," he said, and he locked his eyes on mine. "And it is going to change your life forever."

I didn't know it then, but he was right. This was to be the complete reversal of my fortunes and the start of my career as a trader.

"Here is the story," he said, and then he looked around himself, seeming suddenly to feel a bit out of place, or uncomfortable. "Mind if we get something to eat?"

I was getting a bit hungry myself. That was a good sign, because for the last 4 months, as I took the most recent trading account down to a margin call, I had lost my appetite. And now, just having this grinning lunatic in my house was already helping me at least feel a bit better.

"Let's go then," he said, and then we vanished.

We found ourselves out on exit 8 of interstate 70, about 7 miles north of my home in Wheeling, West Virginia. We were sitting in a booth at Joe's Diner, at the truck stop — not a place I'd ever been to — but it smelled of bacon and breakfast food, and that was good enough for me.

A waitress who obviously knew my companion hurried over to us and said hello. "Jerry," she said to my Fairy God Trader, "will it be the usual?" He nodded, and then he remarked that I would be having the usual as well. I could only imagine what that meant.

When the waitress left, I leaned closer. "So what's this Pip Game you mentioned?"

He grinned again, which made me grin too (I was now feeling *much* better than I had just 20 minutes ago, and very hungry myself). "It's the Pip *Auction* Game, boy," he replied, saying the word Auction as if it were spelled "AW-CHUNG", and obviously excited about the chance to recount it. "I could just tell it to you, but I've got something even more powerful in mind."

He turned around to face the two truckers who were sitting behind us. His wings were still showing.

"Boys, come on over to the booth here. I've got a bettin' game I'd like to show y'all."

They looked at each other, and each stood up and walked over.

Jerry, my Fairy God Trader, slapped down a \$20 on the table in front of us.

"Boys," he said in his booming southern accent, "I'm a gonna let one of y'all have this 20 dollar bill."

"Here are the rules: all y'all have to do is bid on it. Highest bidder gets the money. Loser still has to pay his last bid, but gets nothing."

They looked again at each other, and shrugged. One asked, "So if I bid less than \$20, but I'm the winner, I still get the money?"

"Right. The other guy still pays his last bid. And gets nothin'."

The trucker raised his eyebrows. You could see he was already mentally spending the money he hadn't yet won. He said: "Then I bid \$1."

No sooner had he spoke than his companion cut in. "I bid \$2."

There was a brief pause, and I noticed that other people in the diner were beginning to look over in our direction. The bidding continued, and I was amazed at how fast it was going —

**"\$5."** 

**"\$8."** 

**"\$12."** 

"\$16!" one of them cried, and then I looked up and noticed that a small collection of people had now surrounded us, including our waitress, the cook, and enough other truckers to make me feel very, very claustrophobic. On this last bid, there was some clapping, and everyone was obviously very interested in the outcome of this game.

The bidding had now progressed to the point where each man was intent on winning. I couldn't disagree with the bidding, because it seemed plainly obvious that even at \$19, the \$20 was worth buying.

And the bidding did get there. Within just seconds, the first trucker stated, "\$19." And a cry went up in the diner, and we all assumed we had found our winner. But we hadn't.

Our small crowd was slapping the first trucker on the back in congratulations (for being the first one to \$19), when the second trucker, who appeared just one notch above frustrated, announced what seemed completely ridiculous:

"\$20!"

Everyone fell silent. "What?" came a query from the back of the group. Everyone looked perplexed. The 2nd trucker answered all our silent questions when he said:

"I ain't losin' my \$18. You can pay \$19, I'll pay \$20, and at least I'll break even."

Then, we all realized that in the heat of the bidding, that the first trucker, and the rest of us, had forgotten the rules of the game: the winner would pay his last (winning) bid for the \$20, but the loser would still have to pay. And receive nothing. All of the sudden, as everyone began to realize this, we all became tense.

All of us secretly wanted the game to stop now, for we now understood what was about to happen. "Stop bidding," said the cook. Neither of you can win now." He walked away, probably to finish preparing the breakfast that no longer concerned me.

I looked at Jerry. Grinning as always, but now with feverish, bulging eyes that spoke volumes about his pleasure at getting the best of the truckers. The 2nd trucker was now sweating, breathing hard, and increasingly angry.

The first trucker, now angry too, raised his bid to \$22.

There were sighs from the back of the crowd, and I placed my hand on the \$20. "Guys," I said, "let's just stop here."

The 2nd tucker *pounded* the table and then shoved my hand aside, and shouted an obscenity at me that I'd rather not repeat.

**"\$25."** 

I gulped. They were doing the unimaginable. They were now going to pay a total of \$47 for the right for *one* of them to have \$20.

But it wasn't over.

"27."

An obscenity.

"30!"

\$33." Another obscenity.

"34."

The 2nd trucker slammed his fist down on the table again, and I felt the support pole beneath start to give way. He cried out: "\$50!"

And with that, the 1st tucker shouted another obscenity and stated that his friend was a lunatic for bidding that much. And something else that I won't repeat again.

Jerry, my Fairy God Mother and now for sure the weirdest person I'd ever met, collected the money from the truckers — he was far bigger than they, and they weren't going to argue with him. He got \$84 in all. He had just sold \$20 for \$84!

Everyone was mumbling, most saying things about how stupid all of this had been, how incredibly moronic both truckers had been. The 2nd trucker angrily replied to everyone, but looked straight at Jerry:

"If this fairy-clown hadn't duped us into this, we'd be just fine. I want my money back." With that, he reached over to Jerry, apparently ready to do battle to get his money back.

Jerry didn't even warn him.

Instead, Jerry's giant arm reached out, and with his meaty hand, he grabbed the 2nd trucker by the throat and pulled him closer. You should know that pulling him closer meant that Jerry literally yanked the trucker off the floor. With faces so close together that the 2nd trucker could probably see Jerry's tonsils, my Fairy God Trader said:

"You can either bid against someone else in the diner for the \$84, or you can walk away." He growled. "I suggest you play again for the \$84, but that's just my opinion."

And then he let go. The 2nd trucker fell back to the floor, the crowd dissipated, and Jerry turned to me and smiled, as if nothing had happened.

"You see, Rob," he started, "do you see what just happened there?"

I had to admit that the only thing that I had seen were two stupid men overpaying for currency.

"Okay. Does that apply to trading?"

I thought for a moment. "Not really. But it was fun to watch!"

He reached out with his meaty hand and his smile disappeared.

I stared blankly at the sweaty, fat hand that was about to crush my windpipe. "Sheez, you're not my benevolent Fairy God Trader. You're like my Fairy God Trader / Cantankerous Ranging Killer God Trader Fairy."

He let out a chuckle, and took back his hand like he was calling an anaconda back to its hole. "Just answer the question."

"It was like trading, now that I think of it," I said.



#### The Explanation

Before I could begin, Jerry started into his explanation.

"Did you notice that both morons just kept bidding? Do you notice that they stopped thinking about how they could best get the \$20 for the least amount of money, and started focusing on not losing what they already had bid?

"Did you notice that their emotions got the best of them? That they were more concerned with not looking like the loser?"

"Yes."

"And that both of them launched into bidding without a plan to get out?"

Now it was seeming more like trading to me.

I said, "You mentioned that this was the Pip Auction Game. But this was the Dollar Auction Game."

"I thought you'd never notice."

Our breakfast came and we dove into pancakes, bacon, eggs, and more food than I would usually eat all day. I could tell the fog was beginning to clear and that whatever Jerry had to tell me, that it was going to help.

"The Pip Auction Game is very similar. It goes something like this:

"Instead of a Fairy God Trader, you have a broker. That broker is

in the business of presenting an opportunity to you. That opportunity is not much different than the game we just saw here. It's called:

# FOR PIPS

"and most people are really bad at this game. In fact, you're one of the worst ever. You are so bad—"

"Enough," I cut him off.

"Anyway, your broker presents you with the opportunity to bid for pips. That's all your doing when you trade. You're bidding for pips. You're just presented with the chance to earn some pips.

"But you have to be willing to lay out some capital first."

I nodded. "That's margin."

"Yes—you're right. There's more to it than that, however. In addition to margin, there is the size of your trade, and most importantly, how many pips you're willing to lose in order to go for your stated goal."

I was now confused. "I'm not sure I understand."

He nodded. "That's because you're stupid, but because I'm nice, I'm a-gonna explain this to you:

"Let's say you want to go for 30 pips on each trade. That's your profit goal. How many pips are you willing to risk — as a loss — as you wait to get your 30?"

I stopped and thought for a moment. "I'm not sure. 10 or 15?"

"Really?"

"Not really. I usually let the trade run."

"How?"

"I'll let myself get pretty far in the hole before I get out."

"How far?"

I was ashamed to answer, but got some courage by the fact that he was willing to wear wings in public. "Maybe 100."

"100 pips just to get 30."

"Yes."

"Explain to me how you feel as it starts to go down."

I thought for a moment. "I keep telling myself it will come back. There is a lot of hope involved. I start telling myself that if I only have patience, it's going to be ok. By 30 pips of loss, I feel I've reached the point of no return, and I sometimes just delete the stop loss order."

I stopped. I then understood how I had become a victim of the Pip Auction Game.

He reached in his shirt pocket and tossed over a small booklet.

# How to Not Suck at Trading.

By Jerry Tradenright, FGT

HOW TO BE A TRADER, Ch. 1

# Chapter 1: The Pip Auction Game

Dear Rob: The Pip Auction Game explains why you are such an idiot, and why you have been losing so much money for so long.

In the Pip Auction Game, you continue to accept larger and larger losses as you try for increasingly meaningless gains. Your focus strays from maximizing gains to minimizing losses, but you end up minimizing gains and maximizing losses.

Once your pip losses equal your stated profit goal (a loss of 30 pips for a trade intended to *make* 30 pips), you and nearly all new traders face this quandary: what if the pair turns around now? Isn't a 29 pip loss better than 30? What if the trade turns all the way around and gives me my 30 pips of profit?

This is the Fallacy of Sunk Costs. A new trader, instead of objectively critiquing his trade, figures that he has already sunk money into the trade and can only now lose "a little bit more."

You will never win the Pip Auction Game unless you stop bidding earlier. Or you can decide not to play all together.

The first chapter of this book — which will teach you everything you need to know in order to trade successfully — is intended to teach you this one lesson: you must stop your losses quickly. You *must* not play the Pip Auction Game. Everything else depends on this one lesson.

# Chapter 1: The Pip Auction Game, cont.

Think of the Vietnam War. The United States of America escalated the conflict time and time again. The focus became on not losing the war — instead of getting out early with minimal losses (and more pride intact).

Staying in a trade because you already have "so much invested in it," emotionally and financially, is like following your old girl-friend around even though she's now dating an NFL linebacker. Eventually, you're not only going to permanently lose your old girlfriend, but you're going to get your butt kicked.

In situations like this, it's as if your brain has actually snapped a synapse, and you are hell-bent on proving to the world (which is not watching, by the way) that you are not an idiot, when by all objective measures, you certainly are an idiot, and a poor one at that.

You're playing the Pip Auction Game when you let a losing trade ride so that you:

"Can see if it turns around";

"Not lose out on the chance that it will turn around";

"Prove that I'm able to stay in a trade";

You have simply succumbed to the Winner's Curse: you are paying more for pips than they are worth. You are trying to buy money—literally—for more than it is worth.

# Chapter 1: The Pip Auction Game, cont.

Here are 4 fail-proof ways to solve the Pip Auction Game problem, and to guarantee that you're not going to play it again:

# #1: STOP OVERBIDDING FOR PIPS.

You have heard this before, and it's true, but until now you still have not lived by this rule. You should never risk more for pips than they are worth. You should cut your losses short. If your trade does not produce a profit for you, then you should close it.

Practically, here is what you do. These are not hard and fast rules, but you will be able to mold them to your use easily enough.

- 1. If your trade does not work out within X minutes, then close the trade. X minutes is the number of minutes during which your trade just sits and does not move very much. You're at a loss, but not a large loss.
- 2. If your trade immediately starts to move against you, ask yourself: did you make the right decision? If you did, then stay in until your stop loss is hit. If not, exit NOW, regardless of your stop loss being further away. More on this later but a few words now:

How do you know that you did not enter the trade for the right reason? If you traded on emotion, if you entered the trade within 5 minutes of sitting down at your computer, if you did not follow your trading plan (later chapter), if you have a feeling deep inside that you made a mistake — all of these are good signs that you have made a trade for the wrong reasons.

Here's the next way to avoid the Pip Auction Game:

### #2: STOP TRADING.

You can't lose what you don't risk. Of course, if you have any desire to be rich at all, you're thinking that this is the dumbest advice you've ever received.

- 1. If you have lost more than 9% of your account value, within ANY period of time, stop trading live NOW. No exceptions.
- 2. Trade on a demo account for 1 week for every 2% of your account that was lost (and maybe even more). If this seems like too much of a burden, ask yourself: "How much of a burden would it be to lose my entire account?"

This can be really hard to do. For instance, if you are trying to pay your bills and live off your trading account, and you are asked to stop trading live, you are going to wonder where you're going to get the money to live from. The simple answer is that you have started trading live too early, and it is better to have \$2,000 (or any amount) that you cannot trade live, than it is to have nothing left at all.

I once worked with a trader that refused to stop trading live and move to a demo account because "demo trading will take away the excitement. I'm not sure I could stay interested in trading if I'm only trading a demo account." He lost everything. Twice.

# #3: REVIEW YOUR TRADING NOW.

- 1. Every week, print your account history from your trading platform, and spend 2 hours away from your computer (preferably outside your house, in the library, or a restaurant, or someplace that you can think away from your trading area) looking over the report.
- 2. Look for your mistakes. They should be easy to identify. They are the trades that were losers.

- 3. Realize that every losing trade is a mistake. If you believe otherwise (the old, "Well, it's good because I've learned my lesson"), then you are going to at least *enjoy* losing your entire account. Get with the program, man! Would you be happy to have set your hair on fire, because now you can say, "Well, I'll never do that again!"?
- 4. Get someone you trust to look over your statement for you. Ask them to be brutally honest with you. If this person says, "You are going to lose everything," believe them. Just go ahead and believe them. So many times, traders who have lost 50% of their account feel that "I've finally turned the corner, and this is it. I'm not going to lose anymore." They don't switch to demo trading, and they lose everything. Don't do this. It feels awful.

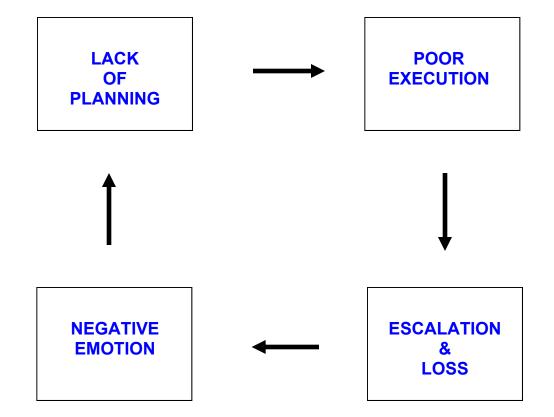
The last point here. I recently worked with a wise trader in Fiji, who realized that he wasn't following a system with proven results — that although he had intermittent (large) wins, he also was having occasional losses that left him feeling uneasy about trading. So you know what he did? He stopped trading. Wisely, he kept his account balance intact while he worked out the details. How long did it take him? It does not matter. My friend was willing to trade on a demo for as long as it took him to get back to trading a proven system that he could trade with confidence.

You could learn from our friend from Fiji. When in doubt, don't take *more* live trades. Take NONE.

# #4: REMEMBER THE PATTERN OF TRADING DISASTER.

Playing the Pip Auction Game will guarantee you a trading disaster. This is because when you play the PAG, you set yourself up in the Pattern of Trading Disaster.

# The Pattern of Trading Disaster





- Lack of Planning. This is simply an inability on your part to
  write a detailed trading plan. If you don't have a trading plan,
  then you should stop trading now and write one. It can be as
  easy as writing out your current trading strategy, systems, and
  money management principles (if you are currently trading
  successfully), and as difficult as starting from scratch (if you're
  not).
- 2. Poor Execution. When you don't have a trading plan, then you are likely to make bad trades. You're going to trade on the basis of a spur-of-the-moment decision. You're going to trade because you don't want to miss out. You are going to make trades here and there, possibly lots of trades and you'll have no set reason why you did any of it.
- 3. Escalation and Loss. Bad trades lead to losses. What's more many times, when you've got a bad trade going, you're possibly tempted to add to the trade. When you do that, you only escalate the damage. Some traders believe that when you "average down" a trade, that you don't need it to turn around as much in order for you to break even or get a small profit. Obviously, this also amplifies the possible loss.
- 4. Emotion. Last of all, your emotions get the best of you. When you've lost again, and you realize that it's because you didn't know what you were doing, you get emotional. And then you jump back into a state of mind that says that you *can* get the money back, if you only take another trade, and you just double the amount you trade next time...



#### Jerry's Last Words

I closed the booklet and looked at Jerry.

"I am a perfect example of the Pattern of Trading Disaster."

"Yes, boy," he said, finishing his breakfast and his 4th cup of coffee, "you certainly are." Neither of us spoke for a few moments, and then finally he continued, "But how do you feel after reading the booklet?"

I couldn't help but smile. "It may sound terrible, but I feel much better, because I've been able to see from a distance where my mistakes were. I realize that I've traded live before I was ready. I realize that I need to have a written plan. I know that I have to stop trading on emotion, and adding to my losses."

"And?"

"And knowing all of this gives me hope."

"Why?"

"Because before, I didn't even know what I needed to change, or if I needed to change anything at all. I was just trading more and more, racing into oblivion."

He smiled. I smiled back. I continued:

"And now that I realize all of this, I can get to work on the trading plan. I can stop trading live — I am *not* going to put more money in my live account today. I was going to—"

"But now you wouldn't even *think* about it," he said, finishing my thought.

"Right."

I finished my breakfast, and we returned to my house—of course, by Jerry's telepathetic/telepathic/teleportatic transportation.

That was the day that I realized there was hope for my trading. As we poured over my trading logs, and discussed my mistakes openly, I realized that I'd been hiding from my weaknesses, trying to outpace my faults, which were a part of me and would always travel at the same speed as I did—and the faster I sped forward into trading disaster, the harder it had been to pull out. Now I knew what I had to do: I had to start over, and as hard as it was going to be, I could start to see a faint light at the end of the tunnel.

I knew I could trade for a living, and now I was facing my weaknesses head on, and it was only a matter of time.

Before Jerry left that day, he asked me how I felt one more time.

"Better than ever," I answered. I knew that for at least 6 months, maybe more, I would not be trading live, but I actually felt better about *not trading* than I had ever felt about trading. That alone told me that I was changing for the better.

"You should," he told me, as he squeezed out my window, smiling as broadly as ever. "And you haven't even seen the rest of my book."

#### **Conclusion**

I really did lose my entire first forex trading account. Totally. I blew it to bits, and it took me 12 months to achieve sane, profitable trading.

Nowadays, I trade for a living. I'm no Fairy God Trader, but I have been around the block, and I hope that I can help you become the trader that you know you can become.

A lot of what I provide, I provide for free. Other services, like the 1 on 1 training, cost money. I try to keep the stuff you have to pay for to a minimum, and the paid services as inexpensive as possible.

Several times per day, however, I am asked, "Rob, if you're such an awesome trader, then why would you ever train people or charge for services?" It's a great question, and just for reading this ebook, I'll give you the best answer I can think of. Just download the 1 page PDF at this link:

#### http://www.robbooker.com/why.pdf

I wish you the best. I have always tried to keep my promise to respond to every email I receive — although it does sometimes take a while, I think I've done a fairly good job at that. My email is rob@robbooker.com.

Rd Bowker