

Chapter 12

THE ULTIMATE STOP LOSS

“Only fools refuse to be taught. Wisdom shouts in the streets for a hearing. Wisdom calls out to the crowds at the exchanges, and to the judges in their courts, and to everyone in all the land:

“‘You simpletons!’ she cries. ‘How long will you go on being fools? How long will you scoff at wisdom and fight the facts? Come and listen to me! I’ll pour out my spirit of wisdom upon you, and make you wise. I have called you so often but still you won’t come. I have pleaded, but all in vain, for you have spurned my counsel and reproof. I told you, some day you’ll be in trouble, and I’ll laugh! Mock **me**, will you? – I’ll mock you! When a storm of terror surrounds you, and when you are engulfed by anguish and distress, then I will not answer your cry for help. It will be too late though you search for me ever so anxiously.’

“For you closed your eyes to the facts and did not choose to reverence and trust in wisdom, and you turned your back on me and spurned my advice. That is why you must eat the bitter fruit of having your own way, and experience the full terrors of the pathway you have chosen. For you turned away from me – to death; your own complacency will kill you. Fools! But all who listen to me – wisdom – shall live in peace and safety, unafraid.”

These heavy paragraphs are a paraphrase from the book of Proverbs. You can read it non-paraphrased in the first chapter of that book.

We decided to include them here, because what one always hopes will never happen to any trader has happened. A fellow trader and student committed suicide in his despondency over the losses he had taken in the market.

This handsome and talented gentleman had become a millionaire before he lost his money. He made a fortune in real estate, buying, repairing, and then marketing various properties. Then he took up

trading. It looked so easy! How many of you view the markets the same way?

In an earlier part of the first chapter of Proverbs, it says, “When a bird sees a trap being set, it stays away, but not foolish men; they trap themselves! They lay a booby trap for their own lives.”

This man trapped himself. Did the markets kill him? No, he did it to himself. He poured good money after bad. In an almost maniacal frenzy, he desperately tried to recoup his ever mounting losses. In an intensity of panic, he day traded like a man possessed. As his fortune dwindled and his dreams of easy money went out the window, he blamed every one and everything for his troubles. In a meeting we had with him, he blamed his computer. He blamed his live data feed. He blamed his broker. He blamed the market insiders. There was no talking to this man – no way to help him. No matter what advice was offered by his trading friends, he refused to admit there was anything wrong with his trading or his attitude.

To meet with him was uncomfortable. His gaunt, wild-eyed look immediately made uneasy all who met him.

Where was his ultimate stop loss? Apparently, for **this** man, it was the grave. He placed a loaded gun in his mouth and pulled the trigger.

Where is your ultimate stop loss? Is it at the same place as his? Is trading worth your very life? What of this man’s family? Who will comfort his wife in her old age? Who will be there for his children and grandchildren? It certainly will not be him!

There must be a time and a place where you are willing to call it quits. For most people that point comes before the desire to save their fortune overwhelms their desire to save their own life.

For years we have tried to understand why people threw themselves out of windows and plunged to their death as a result of the market crash of 1929. We hope none of us ever has to find that understanding in our own lives.

We never cease to be amazed at the attitude of people who contact us because of our books and seminars. We shudder when we think of the frantic need to trade that some seem to have.

TRADING BEFORE HOLIDAYS

It was just prior to a three day holiday weekend. The market was to be closed Friday. We anticipated very thin trading on Thursday. Coincidentally, Thursday was to have one of the major governmental reports. On Friday, when the market would be closed, there was to be another major governmental report. These reports are known to have considerable effect on interest sensitive markets. To make matters even worse, on the afternoon of the Monday following this three-day weekend, a major policy making speech was to be made by the chairman of the Central Bank.

In our estimation, the markets would be much too thin and volatile for trading on Thursday. An appropriate thought would have been “I am not considering a single trade today. The markets will be thin ahead of the holiday.”

To our utter amazement, we began getting phone calls asking about various trades that individuals were seeing. Some were dismayed that we mentioned to them that we thought that it was totally inappropriate to trade at such a time in view of the holiday, the reports, and the upcoming speech. It was almost as if the callers were insulted by our caution and care for their safety.

Were these traders or thrill seekers? Do people trade because they get an emotional high from this activity? Apparently some do! Apparently, trading is an addiction for some.

Why not take up parachuting, auto racing, or some daredevil activity like diving into two feet of water from a fifty foot cliff?

Some traders are so impatient. They have a compulsion to trade. Even worse, some feel they have to day trade all day long – as long as trading hours are open.

Before you ever day trade with real money, you need trading experience. Your discipline should be fairly well set, your good trading habits pretty well formed. You should have developed an attitude of patience and reasonable satisfaction. You should be learning to tune in on your instincts and intuitive abilities. Even then, you will have some harrowing experiences.

What on Earth makes so many think they can hear about trading from a friend, read a few books giving only a cursory treatment to the profession of trading, take a one or two day seminar, and then successfully step out and become an instantly marvelous trader?

You may have to spend years learning the art and craft of trading, certainly it will take many months. It takes great stamina, skill, and discipline, especially when it comes to day trading. The mortality rate is extremely high among day traders.

It might very well be that with the wrong approach, you have a better chance at a gambling casino or the race track, if all you want to do is gamble. There are no commissions at casinos, no exchange fees. There are not nearly as many books that you need to read, and there are probably no seminars for you to attend. Probably the biggest advantage at the casinos is that the gaming tables are, for the most part, fairly run. The house knows it doesn't have to cheat you to get your money. The house's edge is built into the system. This is not true on the trading platforms of the exchanges. The insiders will regularly try anything in order to gain an edge over you. They'll steal your profits with bad fills. They'll front-run your trades. They fake going long only to go short and vice-versa. They will beat you out of your money every chance they get. If you just want to throw away your money, you can do it at the gambling tables and have a lot more fun as well. At least there they feed you, offer you drinks, and entertain you while they take your money. The futures markets are one of the worst possible places in which to be a gambler.

The scriptures say, "There is a time to mourn." This chapter has been a time to take up a lament.

Scripture also says there is a time to rejoice and to be happy. The same day that brought news of the suicide also brought news of three traders who are happily making lots of money in the markets. One in particular has done what we hope and pray you all will do. He has found himself and **his** way to trade.

He does not use our methods per se, he has built his way of trading around what we taught him, a way more to his liking. He has found methods and techniques that fit his comfort level and his personality. He has found a way to trade that melds with his own temperament.

He called to tell us this. What did he get from us? He grabbed onto the idea that trading was really involved with personality. He realized that you can do almost anything and make it work in the markets if only you believe in yourself and what you are doing. He began to treat his trading in a businesslike manner. He got control of himself and then his trading began to work.

He satisfied himself that he had come up with a viable way to trade. He then studied and tested it for over two years, until he was satisfied that if he pursued it he would succeed.

Has he found some magic way to trade? No! Has he found the holy grail of trading? Certainly not! What he has found is **himself**. He has found a discipline he can follow, and a method that works – for him. For bringing him to that realization he gives us the credit. But all we did was to show him the way. He still had to traverse the path to success. We're really proud of him. He is a very special person to us. Our paths have crossed and our lives have touched and we each have gained from these happenings.

The single most important thing you can have in trading is full confidence and belief in what you are doing. You **must** believe in yourself. Unfortunately, by the time many of you find the truth, you are already jaded. You are unsure of yourself. You have listened to, read, and absorbed tons of misinformation. You must set all that aside and go on from here.

In trading you are your own worst enemy. Resolve in your mind to acquire the discipline you need to trade. You **can** do it. One of our

students, well up into his seventies, has done it. He has finally learned to control his emotions and trade successfully. It has been like pulling teeth for him (if he still has any), but he is now trading consistently well. His desire for success has been so great that it is monumental. We knew he would make it long before he did. How did we know? We knew because this man was willing to admit over and over again his mistakes in trading. He was willing to confront every error, admit it and deal with it. That takes courage, and we salute his immense determination and boldness in coming to terms with his trading problems.

Fortunately, the calls telling us of success far outnumber those telling us of any failures. We are very grateful for that. Please call or write to let us know of your successes so we can pass them on. There is a tremendous need for encouragement in the field of trading.

After that mini-sermon, were you beginning to wonder if we would ever get around to teaching you additional techniques? We will so that you won't disown us. However, in order to give you time to think about what we said here, we won't give you anything just yet. You'll have to wait until next time.