

Trading Titans:

Linda Bradford Raschke

Trading as a game.

The need to focus, and why she keeps notebooks

By Allen Sykora



Linda Bradford Raschke sees certain parallels between trading and sports, such as recognizing that every trade cannot be a winner, forgetting about the previous day regardless of the outcome and keeping mistakes to a minimum. So in addition to advising novice traders to study classical technical analysis, she also suggests they read sports psychology books.

Still other pointers for beginning traders include patience while developing a trading methodology, recording thoughts and ideas in a journal, using common sense and being content to wait until conditions look right before putting on a trade rather than feeling pressure to capture profits every day.

As for style, Raschke's own trading is based on closely monitoring the price action and watching for basic chart formations. And she tends to favor shorter

time periods because she feels she can better control risk and use higher leverage.

Raschke is a highly regarded trader who was featured in Jack Schwager's book, "The New

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Market Wizards."

She mostly trades her own account, as she has done for the last two decades. She trades about 85% futures and 15% equities, with an occasional foray into equity options. She has been a Commodity Trading Advisor since

1993, both managing money and running commercial hedging programs in the metals markets.

Daily trading activity by Raschke and LBRGroup are posted in an Internet chat room, which can be accessed at www.lbr-capital.com.

"We have fun and make market commentary," said Raschke. "It's our version of being on the trading floor upstairs."

Raschke began her career as a market-maker on the floor of the Pacific Coast Stock Exchange and has also worked on the floor of the Philadelphia Stock Exchange. She now trades from her home in Wellington, Fla., spending as much time as possible in a barn with her horses just 100 feet from her office.

One of her pieces of advice for market newcomers is to forget the previous trading day as each new day begins, similar to the manner

in which a football player forgets about the last game each time he steps on the gridiron.

"You have to put behind you what happened yesterday," she said. "If it was a good day, forget about it. If it was a bad day, forget about it."

Sports analogies

"It's very analogous to football. You might make a bunch of plays and only make two yards. But you're always setting everything up in case there's that opening."

"The winning baseball team isn't going to go out and have a track record of winning 90% of their games. On balance, you have to achieve some type of consistency, but you're not going to win every game."

"There are a lot of analogies with sports and the markets. You



can't sit there and win a tennis match if you're thinking about the score all of the time. You have to be focusing just on that shot.

"The person who is going to win the match is going to be the person who makes the least amount of mistakes. And that's what a lot of trading comes down to – simply not making mistakes. Everybody makes some mistakes, but you need to minimize your mistakes."

"You don't have to be a genius. You don't have to have an IQ of

150. If you just keep playing the game long enough, you'll be in the right spot at the time just enough times. Just don't go making big mistakes."

"If they really want to work on that psychology side of the game, all they need to do is go down to the bookstore and get a bunch of \$15 books on sports psychology. That's some of the best stuff out there."

"You have to be a fighter... Don't ever get discouraged, because every big trader out there has had challenging moments."

Besides a certain amount of competitiveness, aspiring traders also need "single-mindedness, a lot of focus and concentration, and a fairly long time horizon," said Raschke.

"You have to be willing to sit there day after day, week after week, without having any huge successes right away."

"Understand it probably takes two or three years before you can figure out what you're doing, get a comfort and confidence level, and have familiarity with the markets. You have to have some patience."

For one thing, a market newcomer has to figure out what type of trader he or she will be.

"They have to find out if they want to do spread trading, long-term trend-following, system trading, short-term scalping... There are a lot of different ways to skin a cat out there."

Write it down

Raschke encouraged newcomers to the markets to keep a journal, as she did when she began trading. Aspiring traders might record their patterns of behavior, observations or tips from other traders, notes from books they read and trading ideas that they might want to

check out.

"When you write stuff down, it goes to a different part of the brain," she said. "I really think it makes a difference."

"I've got hundreds of notebooks I've collected over the years. I never go back and read them, but I think writing things down helps a lot."

"A lot of people try to out-think the market. They try and intellectualize and try to get too smart."

She suggested novices get a foundation in classical technical analysis by reading the works of the noted authors from the early part of the 20th century, such as Charles Dow, Richard Wyckoff and R.D. Schabacker. Their ideas were formulated before computers, but have stood the test of time, she explained.

Raschke also advised market newcomers to "use common sense."

"Learn to trust yourself and have confidence in your own methods," she said. "A lot of people try to out-think the market. They try and intellectualize and try to get too smart."

"They try to figure out all these scenarios. You shouldn't think too much during the trading day. You should just watch and see what the market is doing. Don't try to out-smart the market – or that is going to backfire on you."

"Keep it real simple."

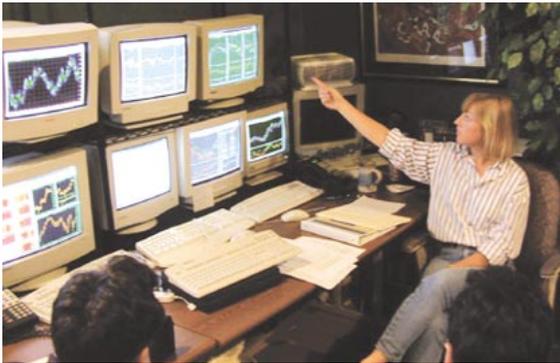
She also cautioned traders not to think they have to rack up a big profit every day.

"If the market is not doing much, don't try to force anything out of it," she said. "People don't realize you don't have to go out there and make money every single day.

"If you can capitalize and put together three great days a month, you can make a good living – as long as you don't do anything stupid on those other days. A lot of it is timing the market – watching it, getting a feel and waiting for your spot."

She characterized trading markets as a streaky business.

"You learn on the trading floor



that maybe 90% of your year might come in only three months," she continued. "When things are really good, take advantage of them. We used to have an expression on the floor, 'Take the cookies when they pass the plate around.'"

Raschke's involvement in the markets began when she was attending Occidental College, a private school in Los Angeles.

"I'd always been interested in the markets, thinking like every other fool out there that it's a great way to make a lot of money by your own hand," she said with a laugh. "A fund was set up by an anonymous donor, and 12 students were nominated to a board of directors. So we traded stocks our senior year."

After college, she wanted to become a stockbroker. "But nobody wants to hire a 21-year-old fresh out of school, who is green behind the ears."

She ended up getting a job in San Francisco as a financial analyst for Crown Zellerbach, a paper company. The company's headquarters happened to be a half block away from the Pacific Coast Stock Exchange.

The exchange opens at 6:30 a.m. Pacific time, so it would coincide with the opening of the New York Stock Exchange.

Security was more lax then, she recalled, so she began hanging out on the trading floor early in the morning before she went to her regular job. She became a friend of a trader who eventually backed her.

When asked to outline her trading methods, Raschke pointed out that during the first 10 years of her career, she traded without up-to-the-minute charts.

"We all subscribed to daily charting services and would draw them in on the close," she said. "But intraday, you didn't have the computers and tools that so many people have nowadays.

"So I do a lot of watching the price action. You learn to watch support levels, resistance levels, opening gaps, how the market is trending during the day, whether there is heavy volume. It's real basic, traditional stuff.

Think in terms of concepts

"We learned to think in terms of concepts. Are we testing yesterday's high, or are we trading above yesterday's close? Are we trading above today's opening? Are we

higher in the first hour? Is there a key swing high or swing low that the market is looking to take out or test?

"How are our market leaders doing? If you're watching the S&Ps, for example, you might want to keep an eye on Microsoft and IBM.

"If I'm trading the index futures, there is a lot of pattern recognition, in terms of watching overbought and oversold tick readings.

"That's the core of what I do."

"Over the years, with my charting, I've gravitated toward looking at very traditional chart patterns – bull flags, bear flags and signs of distribution. On my charts, I'll always keep a 20-period exponential moving average for a basic reference point of where the market is trending.

"You can sit there and play all kinds of little tricks with oscillators if you want. But any oscillator is going to highlight what's there on the bar charts, anyway."

Raschke added she watches to see if a market is starting to consolidate or whether it might be reaching the end of a consolidation period.

"Once the range tightens down, you're ready to break out and have a pickup in volatility and perhaps have a little trending... Then you have to understand how to set up trades differently, so - at the very least – you're not standing in front of that type of move and you find ways to jump on board."

Much of her trading, she explained, "comes down to being able to look at price action relative to something else – relative to itself, relative to other markets or indices, signs of relative strength and signs of relative weakness."

Later, she added: "Price is the

best indicator above and beyond anything else out there. That's my number-one motto. Price is your indicator today, in the here and now. What is the market doing right now?

"I'm not interested in where it's going to be tomorrow or a week from now. Don't ever get into trying to determine valuation levels. That's a trap. To me, current price is everything."

Raschke explained that she tends to look for trends or the beginning of breakouts rather than trying to figure out where a reversal will occur.

"I'm more interested in which direction the impulse is moving,"

"As a general rule of thumb, the more volatile a market is, the shorter the time frame you can trade it."

she explained. "Which direction is the market moving with the greatest momentum?"

"I'd rather see it tip its hand and see it break, then jump on board...on the first little pause, as opposed to picking exactly where it's going to turn."

Reversals are difficult to forecast, she continued.

"I don't think you can do that very well," she said. "You can on a short-term basis, of course, with overbought and oversold levels. But in the big picture, I don't think you can say how far a particular market is going to go."

The length of time that Raschke will hold a trade depends largely on the volatility of a market, although she tends to favor short-term time periods overall.

"As a general rule of thumb, the more volatile a market is, the shorter the time frame you can trade it," she explained. "The less volatility, the more you want to step out on your time horizon."

Raschke estimated she does 90% of her trading in the S&P futures on a day-trading basis. In bonds, she might be in a market for one to three days.

"I would say the majority of my trades in other markets tend to last two to three days," she said.

She feels that shorter time periods enable her to better utilize risk control and use higher leverage.

"You can have tighter stop placement," she said. "You're looking at smaller, more well-defined support and resistance levels."

"If you're trading on a longer time frame, you have to give the market more room – and I don't think you can use as much leverage that way."

She trades exclusively on technical factors, paying no attention to fundamentals.

Follow the money

"I figure there are people out there who are much bigger than I am and have much better resources and ability to interpret that type of information," she said. "They're the ones making the market move. I'm just trying to follow the money flows."

Raschke has been trading S&P futures since the first day they were listed. This remains one of her favorite markets, as she has had a background in stocks since her early days as a floor trader.

She also likes bonds and currencies.

"I trade the other stuff – like coffee, sugar, grains and energies – because it keeps me fresh, so you don't get too attached to one mar-

ket and you keep your skills good," she said. "But it's more for the satisfaction of doing it. I don't think I've ever made huge money in wheat or cocoa or anything like that."

Hobbies a plus

Raschke said she considers it important for traders to devote themselves to a hobby during their non-trading hours in order to take their minds off the markets. Her passion is horses.

"That's what keeps me sane," she said with a laugh.

She keeps five horses and two ponies on her acreage. She has a riding ring and her community has a number of bridle trails.

Years ago, she rode horses in cross-country endurance events. Now, she focuses on "dressage," which she compares to "figure skating on horseback." She explained, "You try to get the horses to be supple and well-gymnasticized with classical gaits and movements. You try to get the horses prancing with the riders sitting up there looking like they're doing nothing."

Horses have crowded out her other hobbies. She once played tennis a couple of times a week and figured she was one month from earning a black belt in Tae Kwon Do.

"You need to have some type of sport or discipline outside of the markets that you can try to improve on, so you can get your mind off the markets," she said.

A former piano player, she added, "It doesn't have to be a physical sport. It can be painting or playing the piano. But you have to have something else to work on and try to master to bring a balance in your life. You can't spend every hour trying to figure out the markets."