

Trading for a living - my view by Charlie Burton

This is my personal take on trading and why I do it. Everyone will have a different perspective but the following passages are based on my individual experiences.

In order to attempt to document my views on trading, I have broken it down into sections. My aim from writing this is to help new traders appreciate the many facets of trading; the work that's involved, the highs and lows, the lifestyle benefits, the psychological side, understanding the market, the odds of success plus a whole host of other nuances that make up the world of a trader.

With that in mind, I hope this short report is of use....

Charlie Burton

My story so far....

I always had an interest in the markets. As a child, my parents encouraged me to invest and my first experience was when British Gas went public. As a family, we bought shares in this IPO and they did very well over the following year. We then repeated the exercise with British Telecom and TSB as I recall.

We didn't know what we were doing but my parents felt it was right to invest in these companies and we were fortunate that the 1980's were kind in the main....

The early 1990's were taken with university education and I remember considering using student loans to invest in the stock markets. It was probably a good idea that I didn't as it would have been pure luck if I had been successful back then (and most likely I would have failed). But I always had an interest, I just didn't realise at the time that ultimately it would become my career.

After graduating, I went into financial services and thoroughly loved my career. I would advise financial advisers on our funds and services in order to help them with advising their clients. It was effectively technical sales and I was having the time of my life. Having said that, burning the candle at both ends had its say in the development of my face wrinkles over the years, but hey, it was fun. In the end though, the lifestyle was getting to me, long days followed by corporate entertaining in the evenings wasn't exactly the healthiest lifestyle for me when I had also enjoyed 20 years of competitive martial arts.

By late 2001, something had to give and it was the career that fell on its sword. I had already been trading for four years on the side when time allowed and thought I would attempt to turn this into a full time endeavour. So I walked out of a six figure paying job to do something that you're never guaranteed of getting a pay check at the end of your month!

Fortunately, despite many ups and downs over the years, trading has been kinder more than it's been harsher. Below we will look at my views on trading in general.

Trading

Make no mistake, I believe trading to be one of the hardest career paths on the planet. I can't think of any job whereby if you have a bad day, not only do you not earn anything, but your boss actually takes money off you. Well that's exactly what happens in trading.

Actually I must clarify the above point. That's exactly what happens when you trade your own account. If you are a trader at a bank or fund, you still receive a salary. So this report is all about independent traders who trade for themselves.

Now regarding trading for yourself as a job, there are many much more deserving and fulfilling career paths to follow than sitting in front of a bank of screens trying to second guess where the markets are going to move next on any given day. If you want to follow a career path that is rewarding in a sense of self worth and satisfaction of helping others, trading won't give you that. If you want a career that allows you a certain flexibility in your lifestyle to use your time elsewhere, then it could be for you.

But one word of warning. Trading is not about fast cars and yachts. It takes a huge amount of work and dedication in order to find consistency. You will not become profitable over night and you will lose money, guaranteed. But if you have the stubbornness to stick with it through the hard times, you have the potential to be one of the 10%.

Types of trader

When you speak to the average Joe in the street about traders, they will often describe a trader in a huge office, holding onto a couple of phones and screaming down the receivers to buy or sell at a frantic pace all day long. Or they will give the picture of a pit trader at a stock exchange with a funny coloured jacket on, buying and selling with a large group of traders in the pit.

For most of us, this is definitely not what a trader is. But let's look at a few so we know what we are talking about when discussing traders.

- Pit trader at an exchange. A dying breed as technology and automation have taken over most exchanges now. But this is the definitive Eddie Murphy from Trading Places moment - buying pork bellies or frozen concentrated orange juice! There are pit traders who trade their own accounts plus those who are trading for a company. The ones trading for a company (broker) are most of the time not in fact speculating themselves, they are simply buying and selling on behalf of the client's of the broker.
- Sales trader at a bank. Go to the trading floor at Merrill Lynch Bank of America or JP Morgan and the guys and galls at the desks are mostly sales traders. This means their job is to fulfil orders for their customers (hedge funds, pension funds etc). They are in effect order takers but they will also be given some company money to trade too. They have the biggest edge of all of us because they can see where the money is flowing!
- Proprietary trader. These traders tend to trade in an office with the view of making money for the company they work for. They generally receive a split of any commissions they earn. It's high pressure because if they lose, the company will rapidly reduce the capital they are allowed to trade and then earnings dip drastically but for those who are good, it's a good living.
- Home trader. This is someone like you are I who wants to trade for themselves. They can trade off a laptop or PC and in theory base themselves anywhere in the world as all they need is an internet connection to glean the charting and information they need in order to trade.

There are indeed other types of trader out there such as broker dealers, market makers, fund traders etc but what I wanted people to understand is that a larger majority of traders are trading for a company or in fact facilitating orders, not always speculating outright on market direction.

Now we are focussed in on the type of trader (ourselves), we can look at the various styles. Some traders are known as scalpers. This is where they jump in and out of the markets dozens of times a day in order to scalp a tiny profit on each trade. The idea is that they make enough of these trades that add up to a healthy profit at the end of the day.

Other traders are known as intra-day traders. They are not scalpers but they will aim to be in and out of their trades so that by the end of the day, their account is flat and not in any positions. These traders like the feeling of going to bed at night knowing they are not in the markets. Some position traders may only take 1-3 trades a day whereas others may still take 10 or more, but they certainly don't trade as much as the scalpers!

Lastly we have our short term swing traders. These individuals look to take trades with the view to hold onto them for several days to several weeks duration. They are looking for bigger moves over a longer period of time. Obviously they need to have a lot of patience compared to our scalper.

There are also other longer term traders but due to the duration they trade over, we will leave them from these pages.

If I were to categorize myself as a trader, then I would describe my activities as intra-day and short term swing. This gives me a nice variety of style and doesn't constrain me to my pc all day every day.

The work

Like any other career, it takes a lot of work to develop into a profitable trader. It's simply not something that you can read a few books on, or even go on a course or two and instantly become profitable. Like most careers, you don't become proficient overnight. A doctor takes seven years to qualify, an airline pilot may take four, but as traders, why do we think we can learn all we need to know and be making millions within the space of three months?

Like all professions, it takes time and a lot of work to become good at what you do. It's no different with trading. Expect to take at least a couple of years before you achieve consistency, potentially more. Most people start out with the wrong view. They have huge expectations and when those are not met, they give up.

Treat it like any other career, put in a lot of screen-time over a period of years and you will likely be rewarded. I say 'likely' because even at that stage, it's not guaranteed! Think of it this way, if you were to board a plane tomorrow heading for New York (unless you happen to already live there), how comfortable would you feel if the captain announced that he's just been on a two week course and that this was his first flight carrying passengers? Like an airline pilot, you can't learn trading from just theory, you have to build your flying hours and there's only one way to do this - Time!

It may sound like I'm trying to put anyone looking at getting into trading off. That's not my intention, but what I am attempting to do is help traders with their expectations. If these can be managed and they therefore realise that trading isn't a quick fix to financial success, they will treat it better, and have more chance of sticking with it and thus ultimately be successful.

The highs and lows/psychology

'Don't underestimate the power of the dark side' I recall a small green man mention once or twice. New traders think all they need is to learn some strategies or buy a system and the money will just start rolling in. If only it were that straightforward.

Developing a hardened mindset is not something that can be taught. It will only come with experience and it's this that all traders will need.

Being able to handle having losing trades and then be immediately ready to take a fresh trade is not something new traders can necessarily deal with. Trading is essentially a probability exercise. For example, if you were told that you have a strategy that has a success rate of 60% and that on your losing trades you lose £10 and on your winning trades you make £10, then you know that you will be profitable. However, let me give you a scenario below of where your mindset can take over;

With the above odds, over a sequence of 10 trades the outcomes are as below;

winning trade
winning trade
losing trade
losing trade
winning trade
losing trade
losing trade
winning trade
winning trade
winning trade

Okay, so let's walk through the reality of this sequence. Your first two trades are profitable and you are happy. Then you have that first loser, it rattles you a little but you accept that you are bound to have some losers and prepare for the next trade to come along. It duly does and is also a loser. At this point your account is back to breakeven having made £20 on the two winners and subsequently lost £20 on the two losers.

You are now worrying about the next trade. When the next setup comes along, you decide to simply watch it rather than actually take the trade this time. And of course what happens? Yes it's a winner! So you decide you must follow the rules and take all the setups that come along. The next two trades are losers and you are now in a panic! You've now taken seven trades and only had two winners. You forget that you actually missed out on that third winner! The next setup comes along and simply can't bring yourself to pull the trigger and place the trade. Yep, it's a winner. You berate yourself for not taking that trade. Fortunately you take the remaining two trades that are winners.

As a result of not sticking to the plan, you have missed out on two of the winners and therefore ended with a breakeven account balance instead of making a profit. I've been kind in the above example but this is exactly the type of behaviour that affects a trader's ability to be profitable early on.

The problem is that trading goes against the very fabric of our human nature. We are hardwired to protect ourselves from danger. When trading, we have to do the opposite of what our basic instinct wants us to do.

For this reason, it takes time to develop a thick skin and cope with having losing trades because believe me, there is no such thing as a 100% winning strategy or system!

Look at practically any professional sport and you will know that most sportspeople these days work with psychologists to help with their mindset. Golf is a good example. You are a professional golfer and for whatever reason, you have a game and your putting is poor. The next game you play, you are going to worry if your putting is going to be bad again and this self doubt can become consuming.

Before you know it, what started out as one game of bad putting develops into a major problem. You worry about every putt and this doesn't help your game at all. When there were previously no concerns, your putting felt effortless. A psychologist will help with visualisation techniques and developing a winning mindset.

Traders need to develop a similar mindset to sports professionals. It doesn't happen overnight, but it does come....

With regards to highs and lows, you will experience periods of elation when you can't seem to put a foot wrong. During these periods, your account balance is growing nicely and you want to scream to the world what a fantastic path trading is!

When the lows come, it's the opposite. It feels that practically every trade you take is a loser and you feel terrible and that you will simply never be any good at trading.

When I first started trading, I got lucky (sort of) in that I grew my initial capital substantially to around \$250k. It gave me false confidence in that I thought I knew more than I did - I basically didn't understand risk! Then over a period of around 9 months I lost the lot save a few hundred pounds.

It was a really hard period and I understand most people at this point would likely give up. I did indeed take a break for a couple of months but got back in the saddle and started again. Was I now a better trader? Not really, but I had at least learnt something from that initial experience. It still took me time to experience different market conditions plus make plenty of mistakes, but I never forget the emotions of sustaining big losses like that.

This is why we always say to only risk a small percentage of your account on any single trade. It ensures you don't wipe out your account like I did.

The lifestyle benefits

Most new traders will have a personal reason for getting into it. It could simply be for the money, but for most, it's the potential to work for themselves, choose their hours and give them time to pursue other interests in their lives.

It's true that trading for yourself does indeed give you the ability to decide when and more importantly where you want to work. With a pc or laptop and an internet connection, you can trade from practically anywhere in the world.

Personally, I love all types of exercise and trading allows me to fulfil these activities in the mornings if I like. Waterskiing frequently in the summer months, running, gym, indoor sky diving, track driving, you name it, I will have tried it. If I want to take a day off completely because I have the opportunity to do something, I can.

Having said all that, I have paid my dues. I have already put in the long hours in order to be experienced enough to be able to take time out when I like. So expect to be spending more time on developing as a trader in your early years. You never stop learning though and I am constantly tweaking my approaches over the years. All I'm saying is that you have the ability

to be flexible with your working week and choose the best hours to suit you and your style of trading.

The odds of success

Probably 80-90% of new traders will give up. Many are attracted to the idea of making some easy money by simply sitting in front of their computer and clicking their mouse to buy and sell all day long. It's obviously not that easy!

One of the reasons so many give up is down to inflated expectations. The promise of easy money, of making hundreds of percent profits, of the lifestyle lures people in! For a large number of traders, these inflated expectations are not entirely their fault. Google 'trading' and you will see literally thousands of trader training companies or automatic systems promising all sorts to part you from your cash.

The majority of these companies are not the real deal and although they will be able to show you all the mechanics of trading, very few are genuinely good traders or systems.

This is why I have done so many live trading events over the years so people can see I'm willing to put my neck on the line, live in front of them to show what trading really is. I also record my live trades on the challenge account every Friday, whether I win or lose. But at least I am showing people the realities of trading - very few trading companies do this.

Anyway, back to the odds of success. Some traders, even if they start with low expectations will still never make it. They simply won't be able to get past the psychological battles with accepting losing trades.

Is there a certain type of individual who has a better chance than others? Does having certain qualifications or intellect help? A broad answer to those questions would be no. In all my years of meeting traders, they have come from all sorts of backgrounds with varying types of academic ability. As long as you are of average intelligence you will be fine.

Do you need to have studied maths or economics? Absolutely not. Does it matter if you are a bus driver, airline pilot or doctor by profession, absolutely not.

So is there a certain type of individual who may stand a slightly better chance of making it?

Yes. Firstly you need to be pretty stubborn and determined. Now most people will say they are but then give up after a few months. You need to have a work ethic and be willing to put in the time. Malcolm Gladwell's book 'Outliers' states that it takes roughly 10,000 hours of practice to be really good at a given activity. This is a pretty good rule of thumb for trading in my opinion too.

If you are methodical when approaching an activity, this is a good attribute too. Can you approach a task and work your way through it, even if you know it is going to take time?

Lastly, if you enjoy sports, it's been documented that many good traders have also enjoyed sport. Why? Probably because sports people tend to naturally be competitive and stubborn but also because they are used to having to work hard to achieve the results they desire.

Now if you're reading this thinking that you now can't be any good at trading because you don't do any sport, don't worry. I'm simply saying that people that have participated in competitive sport have tended to do better, it's not that you have to do sport!

Trading for a living

So I have highlighted in very broad brush strokes, some of the points to consider if thinking of getting into trading.

My personal experiences will be different to others but then again, I have also taught a lot of traders over the years so hope to be able to have a decent insight into what it takes to achieve consistency in the markets.

Key steps to take and consider are;

1. It doesn't matter how good you become as a trader, it's always good to have a second source of income. Having another income coming in takes the pressure off you. Just like our golfer from earlier, when you start to feel the pressure to deliver, it actually gets harder. Returns for traders are not a constant, you will have winning months and losing months even as a good trader.

Knowing that you still have another income coming in even if you have an underperforming month means you won't stress yourself about it and will trade better as a result. If trading income was your sole income, a bad month can heap a who bucket load of pressure on you and therefore continue to affect future performance.

So my advice regarding this is you may have other investment income or passive income from a business or you can still work (full time or part time) and trade too.

2. Learn! You can't learn all there is you need to know simply by reading some books. Learn from a good trader over a period of time and immerse yourself in it. Consider the education process as an investment in your future. Treat trading as a business. This is serious, not something to do for fun. If you were to start a business, there would be setup costs, it's no different for trading.

3. Start small and grow over time. When you start trading, trade with amounts that are insignificant to you. This helps with developing your mindset and not worry about huge trades you may have on. If you only have small trades, you will not worry about them in the same way but you are still developing experience. You can then gradually build your position sizes over time.

4. In my personal opinion, trading is both challenging and very rewarding to experience. Every single day is different and you are pitting yourself against traders all over the world at any single moment in time. You must enjoy it. If you don't thrive on the challenge then trading may not be for you.

Lastly, although I have written this report to be quite brief, I hope I have given some sound advice for anyone looking to trade for a living. Personally, I love what I do and am also lucky enough to have EzeeTrader with Kym. What better way to work than to both trade and also have a trading business with your friend.

I hope to have given you enough information on the realities of trading without entirely putting you off! If you do decide to give trading a go, I wish you all the very best and hope you decide to stay the course to join the 10-20% of traders who become consistently profitable.

Charlie