

How and Why I lost over 75% in 2 days and what I've learned.

I'm writing this as a sort of therapy, in hopes of helping release from the brain damage that I've caused myself and also because I hope to be a consistently profitable trader one day soon, but this is a reality check for me as it might also be for you. It doesn't help to be pissed off at the market, or myself, or my broker, or anyone or anything rather it will help to document this as carefully and accurately as possible so when the temptation arises again to repeat the last 2 days actions I will clearly remember what it led to and I will clearly remember that the temptation may lead to short term results but each wrong action in the direction of the temptation has a chance of ruining my account and those that are kind enough to risk their money along with mine.

I believe in admitting to my mistakes because learning from mistakes is the only way. Absolute transparency leaves room for improvement, whereas hiding behind technical jargon or excuses stops progress. To not learn and progress is to be "Damned" which is defined as a soul in a state of eternal punishment. Not too far off from the cycle of winning and losing, and losing more than winning that most traders (including me currently) find themselves in.

Working in my favor, I was never the type in school to shy away from making mistakes or being afraid of being wrong if I didn't understand something. I often ended up annoying my teachers because I would ask too many "Why's" ... That reason is perhaps why I have a fighting chance when it comes to trading because every time I make a mistake or a series of mistakes as outlined in this document I can observe the how and why and adjust my attitude, beliefs, strategy etc to come out on top in the long run.

However I have two personality flaws that get in my way, one is that I THINK I think differently than most people, which may be true but I acknowledge that I am still susceptible to basic human instincts of flight to safety, protection, comfort and cognitive biases that are counter production when it comes to trading.

The other is that I seem to have developed a lack of patience, that time is ticking against me and so I need to maximize every opportunity. While this may work in some fields it doesn't seem to work in trading, ever. I have a sticky note on my trading computer placed after a losing day sometime in the past that says: "Patience to get in, Patience to get out, and patience to take the next trade". It helps when I remember to remember this.

The Cause and Effect of how I lost 75% in 2 days

First and foremost I don't want to admit it but I really am just not trading with enough capital. Enough margin? Yes! Will my broker love to have my account? Yes! Enough to remain objective... No. And this creates unnecessary pressure on my account and pressure to perform.

Cause #1: Too little equity under management and in my own account vs. my personal objectives.

Effect: Too much pressure on the account in terms of risk% per trade, objectives for the account in terms of % gains are very high... This puts pressure on their entire trading process and clouds my judgment.

For example, I have a goal of making \$1000 in a day and believe this is very possible because I have done it consistently for months on end before and am confident in my ability to do so but that \$1000 represents 5% account growth on 1 unit (20k), and vs. how much I'm willing to lose in a day (Max \$1000, or 5% per 20k unit) that is putting a lot of risk on the accounts in my opinion and leaving little room for error.

However if I had Minimum 100k account size, the \$1000 is only 1%, I could in fact risk \$1000 on each trade and still be well within reasonable risk levels to both meet my daily objectives for my own account and those accounts that I trade for and keep the pressure to perform away from the trading arena. I could be more objective and therefore more in the present with the market allowing myself to go with the flow, approaching the market with a sense of joy rather than restriction, abundance vs. Lack.

It has occurred to me many times that the brokers allowing low intraday margins doesn't work in the traders favor because it becomes too easy to play with larger position size than is reasonable. In no way should a 20k account be able to control 20 contracts, approx 2 million (20 contracts of crude oil) worth of commodities intra-day. That is 100-1 leverage and it only takes a few 10 tick losing trades to burn an irreparable hole in the account equity.

I actually requested my brokerage at one point to change my intraday leverage to 5k Intra-day for Crude Oil and got no response, it wasn't in their best interests to do so and they knew it. Low Intra-day Margins are designed to maximize the brokers commission/contracts (traded in my opinion) and to churn the volume in their favor. It also gives a trader a sense of un-earned power. As soon as a trader starts tinkering with the idea that "10 contracts equals \$100 per tic, so I only need make 10 ticks to make 1k on a trade....20tics to make 2k" that's the beginning of the end in my experience.

Cause and Effect #2

I have a day job but that provides me my primary income... Why this is dangerous.

I don't consider myself to be a bible thumper (even though I've spent 4 years in Seminary) but Jesus' advice as follows is especially applicable here in Luke 11:17:

"... Every kingdom divided against itself is brought to desolation; and a house divided against a house falleth."

If I am in any way mixing work with trading my mind is divided. My routine is to be at my desk at work for 6:30 AM MST, 1 hour before the stock market open and a half hour before the Nymex Pit session open. My point of saying this is that I arrive to my desk AT WORK, not to a dedicated trading office where I can focus my whole mind on trading but at work where as soon as I walk in my mind is in conflict. I'm a currency broker which involves concentration on the currency and related markets and

even though I meditate before I trade and get into the Now as much as possible my entire surroundings are testament that my house (mind) is divided.

So maybe I'll get away with it and by fine up until 7:30 or so when others start to arrive. But what if I'm in a winning trade and become distracted, cut my profits short only to watch the market continue on the profitable path. ANY distraction when it comes to trading can throw the entire day off, let alone the outcome of the trade. This has happened many times and each time it happens I consider it to be a mistake, if each time it happens costs me 1R (Where R is short for Return on Risk) and it happens daily, I am already down 20 R per month. In addition the time I can spend on trading limits my opportunity window to about 1.5 hours daily.

On the surface this morning routine seems to be OKAY for me and helps me to work, pay my bills and also trade, but subconsciously, under the surface - there is more going on than meets the eye as follows:

The light of the body is the eye: if therefore thine eye be single, thy whole body shall be full of light (Matt 6:22). This is top shelf teaching. Its profoundness goes far beyond appearances, emotions and external stuff in which we often get caught up. The eye pertains to inner consciousness, because everything is inner consciousness. Where the stuff of miracles happens and intuition is sourced there is division so I'm operating at half mast before I get started.

Cause #3.

My Stops and Position Size didn't/don't adjust for Volatility. Like many traders I was basing my risk on tick size, and Dollar per trade risk. In my case it was either 10 ticks or 20 ticks. By having my stop based on this rather than on key levels the market presents 1st. and adjusting position size 2nd. (to ensure my risk% was the same for each trade) meant I was actually taking more risk, risk of being stopped out before the trade had a chance to move in my favor... which entered me into the risk zone of being wrong – ***a lot***.

In hindsight and going forward it would be much better to have position size adjust to a risk% of the account and base the stop loss size on market generated levels that if broken the trade is extremely unlikely to be right.

I've seen my own accounts blow up 3 times as a result of not adjusting stops and position size for volatility and have seen EVERY trader I ever knew that had a fixed tick stop blow up their accounts when the volatility spikes, and typically within the first day or two of a volatility spike. I may find comfort in fixed tick stop losses but that is all it gives me.

Comfort is laying in bed too long when I should be up running to keep in peak shape mentally and physically literally exercising every edge possible to be at the top of my game. The markets are no place for those that seek comfort and there are no guarantees unless at greater risk than they're worth.

Cause #4

My day's objectives were based on a \$Goal per day or a \$goal per week. This works in the corporate sales world... (...Or does it?) Instead of placing goals based on what I would like/hope to achieve which have nothing to do with what the market may or may not be offering, why not accept that each day/week/month is different and each trade is completely unique and seek only to maximize the return on risk? In fact, each moment is unique.

Cause #5

Taking too many trades! Over-trading led to a statistically huge string of losing trades. I was not being patient to get in, patient to get out, and patient to wait for the next edge to reveal itself.

To be honest I approached the two crucial days half prepared, in a mood of "we're going to make a killing" and "this is the days I've been building up the accounts for". Rather than adjusting risk for the volatility first and then playing to accept what my edge presents, when it presents itself.

After the first initial string of losses my instinct to protect or erase the loss (protect against being wrong) kicked in and it was all downhill from there and not a single trade was profitable right until I stopped for the day because the losses almost wiped out my ability to continue trading.

My rules to cap my risk for the day at 5% loss flew out the window with my better reasoning and judgment and with it went my edge and account equity.

At one point I was risking 10% per trade in hopes of making equal to that back, which also led to taking profits too soon on the winners. When I was up 10% I was eager to take that profit rather than letting the market dictate when it would be good to get out, i.e., when the momentum in my favor was slowing and using a trailing stop rather than an arbitrary target that had nothing to do with what the market was doing.

I can testify that almost every time I have taken profits instead of giving the room to trade it hasn't working out in my favor vs. the eventual outcome of the trade.

Cause #5:

Not treating each trade as its own trade. My reasoning for the trades was too tied into the day's results or the results of the most recent trade. There was no "Now Moment Opportunity Flow", it was "I'm down a lot... if I can only recover a portion of this day... and Volatility is there so I should keep trading while it's there". It never occurred to me to step back, clear my head and resume because I was in protection, fighting mode.

Fear of being down and staying down, ie being wrong and accepting that I'm wrong is based in the ego which is the opposite of the power that's required to be a successful trader in my opinion.

I recently read a book (which I conveniently forgot about during the past 2 days) about the Navy Seals called "The red circle" about America's deadliest marksman (400+ confirmed kills).

The author talks about when the Navy seals train, they aren't just training their body... (that is less important) they are training their minds to never give in, never give up, never back down and operate with absolute patience, skill, and precision in everything they do. Brandon Webb (The Seal Sniper) talks about a Red Circle of absolute focus and calm that he enters into mentally while in Combat. This red circle is his mental zone and the only thing standing between him and his enemy in terms of protecting himself and his comrades. He slips into this zone subconsciously without effort because of his intense training and experience. So one could say that the Seals edge is in their mental training first, and it is no different with a trader.

The max risk per day rule based on a \$ figure is counter-productive; rather I should have limited my risk per day to a string of losses, say 4 losses in a row where I know if I keep trading beyond those losses it's without better judgment and skill. Again though, with better judgment thrown out the window there was no way to strictly enforce this other than to be conditioned for strict discipline.

Risk controls are all well and fine but the ego is greater and more powerful and will ensure protection over reasoning 9 times out of 10. If there aren't hard and fast (The computer shuts off or your system exits positions automatically) risk measures in place to protect against ego and attitudes that oppose successful outcomes than the only choice is to condition and train the mind first and truly nothing else matters because that is all that is between the razors edge of profits vs. losses and consistency vs. random results.

Cause #6.

Working with mentally appealing software rather than software that works. I currently use a popular software that is in the low range of cost (\$70/month) and it has many tools and gadgets to choose from that are supposed to give the trader an edge. Some of them are great but the more popular features don't help the trading process whatsoever. The appeal is first and foremost in the cost. Approx \$70/month.

But in hindsight I'll guarantee that the software costs me 2-3x that amount per month at a minimum. There have been several cases where I was in a trade for example and I wanted to stop and reverse that trade but the software wouldn't let me do it only to see the opposite trade become wildly profitable. There have been several cases of software crashing in the middle of the trade and several cases where the tools such as auto-trailing stops, etc have worked against my trade stopping me out too soon, getting to breakeven too soon, etc. Also there's a nifty function that will show your profit standing for the day right on the DOM screen. Why this is counter-productive: Your profit for the day shouldn't matter when it comes to treating each trade as its own and being objective with each trade.

There's also no way to cap the risk per day, or to set a risk% position size per trade and have the system adjust the trade size accordingly based on your entry and stops which adjust for volatility and price action. I used to trade at a stock trading firm where this was enabled and I haven't found it on the cheaper software. Note that this cheaper software is most likely to be integrated with your brokers data feed? Why do you think that is? I believe it's for 2 reasons: 1st. So the barrier to entry is minimized and 2nd. because the brokers don't care if you're successful. Surely a continuously profitable account is gold

to them but they know this is not the norm. Their business plan doesn't necessarily dictate success to the clients.

Here we call ourselves traders and invest 10's of thousands of dollars into a brokerage account. We may take every measure to ensure the commissions are low, etc but when it comes to investing in the trading/charting software if we cut corners it doesn't matter how cheap the commissions are. I've used nearly every one of the less expensive or free software's out there and can tell you that they don't HELP!

If you want to be a pro, do what the pro's do, bottom line. Never sacrifice execution speed and reliability for cheaper commission rates. Don't use software that only appeals to you mentally. Do the work necessary to learn and use professional gear. That goes for your computer, your power back up, your internet connection speed – everything. Even your mouse and mouse pad! That one missed click could mean a whole days work down the drain. And don't stop there... I recently spoke with a computer technician that manages corporate IT infrastructure and he relayed the importance of triple redundancy systems because even the smallest amount of down time could cost the corporation millions of dollars. It's no different in trading, and likely magnified.

Cause #7

Attitude: looking back I have realized that for the past 2-3 months my discipline has been the best ever but my attitude and motivation have suffered. I'm not used to getting out of bed an hour and a half earlier and so rather than adjusting to this it has bogged me down. A better situation would be to increase my exercise and nourishment so my body can handle the extra stress, get to bed earlier, meditate and enjoy my free time so that when I step up to the plate everything is exactly as it needs to be.

Cause #8 Beliefs: Most of my trading beliefs I have realized are from someone else, from a training course or a book I read and most of them are useless because they don't fit me and my unique personality. I know this but when my better judgment goes out the window those often dormant beliefs come right back to haunt me and I start trading like an amateur. I believe that beliefs lay dormant and never really go away but that we can bring on new, more powerful beliefs that have more energy associated with them over the less useful beliefs. Bottom line, I have not done the work necessary to analyze all of my trading beliefs. I have noticed that while in a trade, especially a losing trade when I note my beliefs as they come to me they are often in favor of a losing attitude. As an example, believing that this level the market is at is the best place to take profits ensures I am well positioned in favor of cutting my profits short. It FEELS good to take profits doesn't it? And they say you can never go broke taking profits but that is BS. If your expectancy is negative it's likely because you have a habit of taking profits too soon. I have found that on my biggest losing days happen when I become a "Scalper" taking tiny profits over and over again that are usually less than 1R. Note this.

Cause #9 Preparation: Being at the markets a half an hour before they start just isn't enough time to be prepared for the day. One needs to digest the overnight news, the overnight trends, the themes lately, the daily trends and be well prepared in advance of the trading day. The Navy seals go over everything imaginable before they execute a mission including their gear, contingency plans, and especially ensure

that their mind is in the right place... and even then they may be working with just 66% odds of success in their favor. These are the best fighters in the world.

Cause #10 Being Honest:

There's nowhere to hide at the end of the day because the profit/loss statement speaks for itself but it also only gets sent to my email and my email alone. It's very easy to say to the wife that I had a good trading day when I didn't or to neglect updating my daily tracker and journal. It's easy but it doesn't do a bit of good for me. I need to fess up when things aren't going well and ask for the support of those that I report to so that they are supporting when I am doing well and when I am not doing well. I have noticed that the days that I neglect to do the above are the days that I have the worst losses and I don't want to acknowledge them or learn from my mistakes... taking those mistakes into the next day too often.

Cause #11 my method likely doesn't fully fit me:

I can't honestly say I have a full and complete trading plan that I am fully and completely satisfied with. When I look at my current trading plan I feel conflict. If I don't have a solid understanding about my OWN beliefs about the market than simply put my method doesn't fit me. This manifests in my actions when I do things like switch from a scalping strategy to a position trading strategy in the same day and the results are 50/50 at best. When I jump from a longer term idea to a shorter term idea and forget about the longer term objective there is a lack of balance and commitment to my plan there.

Finally, a word about "Scalping"... When remote traders (by remote I mean not directly next to or on the exchange floor) enter into the arena of scalping we are competing against the zero or ultra low latency high frequency trading systems that are designed to take the profits from high latency traders or to position the program in favor of where the most money can be taken with the greatest ease. We cannot make markets as remote traders and we have no edge when it comes to First in, First out protocols. Our costs of execution are a hundred times that of an HFT program and once we start to generate commissions for the broker in the range of 10% of our daily average profits than our edge is greatly diminished. While I don't necessarily believe that all trades should have a minimum 3-1 risk/reward potential as a rule (because the reward potential is unknown) I do believe in keeping execution costs as low as possible and that comes back to being patient to enter, patient to exit and patient to take the next trade.

If my method perfectly suited me and my beliefs I would have no problem sticking to it and being disciplined. If I wasn't risking too much on a trade I would have no problem being objective, and if I was approaching each day being fully prepared I would be okay with executing my edge consistently. If I treated each trade as its own trade I would never over trade because I wouldn't be tying the results of one trade with another. If I had an exit strategy that clearly defined when and how to exit that was suited to my beliefs I would never take profit too soon and if I was well capitalized I could be in the Now and remain objective, finally if my mind was well trained to be disciplined I wouldn't be worried about breaking my rules and if my software and infrastructure was up to professional standards there would be at least another 20R a month risk free to start off the month.

These reasons and what I've outlined here are why I have failed to date and why most traders fail and why most people that enter the arena of day trading have no business doing so, including me (as is)! For me it's back to the drawing board and I won't be satisfied until everything is taken into account and I won't start up again until everything is in place to compete at least on a level playing field with the professionals. We are competing, bottom line and the game is won before it's started.