Tim Bourquin: Hello everybody and welcome back. Thanks for joining me for another interview. It's Tim Bourquin and today, I'm speaking with Scott Tuddenham and we're talking to him about how he finds good opportunities in the markets and basically his overall trading philosophy. So, first of all, Scott, thanks for joining me on Skype today.

Scott Tuddenham: Hello. Yes, happy to be here.

Tim Bourquin: All right. So talk about the type of trader you are. Do you day trade, swing trade, what do you like to do?

Scott Tuddenham: I am primarily a day trader in the spot Forex market. I also trade futures and occasionally commodities but, yeah, Forex is my game.

Tim Bourquin: Okay. Do you have a specific currency pair that you like to trade mostly?

Scott Tuddenham: The majors, I look at them all, not any one pair in isolation. I tend to scan, but you know, the majors, the Euro, the Pound, the Swiss, the Yen, and the cross pairs as well.

Tim Bourquin: Okay. Are you a technical trader, fundamentals? What do you like to use to find good trades?

Scott Tuddenham: So my story is a little bit different. I wouldn't classify myself as a technical trader per se and I tend to ignore the fundamentals. What I like to look at is exactly how the banks trade. I've had the great fortune of speaking with a number of top-level bank traders and they basically gave me, in essence, kind of the inside scoop of how they play the game and the traps they set and the manipulations that occur in the markets and being able to recognize those. So although I am looking at a few technicals, it is mostly, in essence, price action driven and momentum style trading.

Tim Bourquin: Okay. Let's talk about what that looks like when you say what the banks are doing. How do you spot that in the price action that you can kind of tell, get a read for what they're doing?

Scott Tuddenham: It's a cycle. It's a daily occurrence that occurs. It's a repeating pattern. Mostly, there are certain tells buried within the noise and so when you're looking at a chart there's a lot of things that actually obviously comprise the total global money supply flow. When people talk about indicators and things I kind of chuckle to myself and think that's sort of a very, in essence, naÃ¯ve interpretation for what's causing price to move. So what I look at is distinct patterns and distinct movements at certain times that sort of tip off the hand of saying, okay, here's where we have things that are trapped. Here's where we're moving the markets today, here's how we can discern where we're going to be going with the markets over the course of each session.

Tim Bourquin: All right. When you say trapped, what do you mean by that?

Scott Tuddenham: Right. So when everyone talks about anything that's occurring in the global economy that causes price to move, to me, it's reduced essentially to where the money is and where to recognize that this game is nothing other than trying to take money from others. So when you see prices trading at certain key levels, there's significance to those levels at certain times of the day and when they play near those levels in certain styles and pull off of them, then that's generally a good solid tell that there are people trapped there and they're heading the other way. So that's when I try to enter.

Tim Bourquin: All right. Are these levels, they're not the same number every day I assume? So it's a level that is a nice round number or what exactly is it?

Scott Tuddenham: Well, you see, the kind of the way that price is trading, that will give off the tell of the significance of the number. So, you know, obviously banks have their total aggregate order flow that they manage, they call it the book, the internal and external. So it's really managing the order flow and so they've got what amounts to a volume weighted average price or VWAPs and that number is where they're fully hedged and so they want to drive price to that number and pull it away because that's where they're going to book a profit. That's where they're making their internal money rather than on the customer pricing.

Tim Bourquin: How did you get inside into these bankers, was it a friend or how did you kind of get into this part of trading?

Scott Tuddenham: Really, I just started walking around Wall Street and try to interview as many people. I'm here in New York, I tried as many people as I could, going to trade events, industry events, conferencing events, networking events, speaking to different people, finding people that are just willing to speak. Virtually, you know, just banging on doors literally on Wall Street and then midtown to try and find out who the really good bank traders are and how they trade. So, you know, in essence to really work with them and to find out what they're doing.

Tim Bourquin: All right. So, I think maybe a good way to understand what you mean when you're talking about how these banks trades and the price action is, maybe talk about a recent trade you've had that you've -- it's kind of a good way or a good instructional trade that would tell us how you're looking at things.

Scott Tuddenham: Yeah, sure. Euro/Dollar on Friday was the prime perfect example. You can see through the different sessions from the Tokyo to the London to the New York desk the consolidation that occurs where they're reeling in people or they're consolidating on the contracts and finding out where that average price point is. And then you can see on no news whatsoever, there's what many consider to call a "breakout" where price will then move seemingly erratically and in fast movements to try and get more volume committed into the inner bank and so they'll over out bids to see who will take it. [0:05:22] So they have all the programs that test out how quick the fill rates are and you can start to watch that in the price board, which is a really beautiful phenomenon to see. Okay, those key levels are getting hit very quickly and pulling off that takes on significance to know that okay, there's more volume at that price than there is at a higher price. So you see it drop, drop, drop trying to get more and more commitment to the short side and as soon as there is enough commitment to the short side to warrant their books being netted out then they'll drive it to the long side for the rest of the European session and that's exactly what occurred.

Tim Bourquin: How do they drive it to the long side? What are they doing that is driving price up and driving price down?

Scott Tuddenham: Coming in with their reserve volumes. They have the open float to really push the markets around. So when I say they, it's really, in essence, as I have learned that the nine major banks, right, Goldman, Deutsche, Morgan, UBS, Credit Suisse, BNP Paribas collectively know where each other's order books are netted out. So, in essence, that inclusion to drive price on the aggregate before they then trade out to the inner bank, to the other small institutions hedge funds and the like.

Tim Bourquin: So they are putting out sell offers there to drive the price down and as soon as it's driven down enough that they feel like they have enough people trapped in that, then they'll push price back up to make a profit on that?

Scott Tuddenham: Right. So understand, think about what's happening there is when they're offering out bids, what they're, in essence, doing is taking the other side of what the inner bank is willing to soak up. So as the inner bank becomes net short, their internal books become net long as price is driving down. So as they're becoming increasingly net long over a series of positions that look like on a chart that price is dropping then you know it's the actual opposite of where price is intending to go and that's when you see the wicks and the pullbacks and fast movements occurring. So, you know, as the collective trading world, the 95% becomes net short on a belief that they're going to see a downtrend today or whatever pattern they believe they see, you know, they're getting a belief in their mind enough to commit a contract or ten or a hundred or a thousand to the short side. The banks are merely taking the other side of that and collecting a net long position.

Tim Bourquin: How long does it usually take for this whole pattern to play out?

Scott Tuddenham: Over the course of the session. It's a daily occurrence and the if not it will play into the next session as they hand it to the next desk.

Tim Bourquin: All right. Then let's talk about how you get involved in this to make money. Do you wait for the prices to come down and then try to buy it near bottom?

Scott Tuddenham: Yes.

Tim Bourquin: And about the time? Okay. So what tells you it's about ready to turn and then it's time for you to get in?

Scott Tuddenham: The manner and the speed and the style in which prices moves. I know that's kind of a nebulous statement, but the manner in which price fluctuates differs at various times and that's a very distinct tell that different things are occurring within the inner bank. They have different things that are occurring throughout the cycle of the day, right. They have different volume coming in, different orders, different institutions, different settlement periods from the desks to the desk and so I really just try to watch the manner in which price moves to those key levels and rejects off of it and in so doing, that's my confirmed entry.

Tim Bourquin: Are you waiting for it to actually turn or you're trying to get in before it even turns at all?

Scott Tuddenham: The game is to catch the absolute low of the day.

Tim Bourquin: So how many trades a day are you putting on?

Scott Tuddenham: A few, four, five tops--

Tim Bourquin: Okay.

Scott Tuddenham: -- across the pairs, yeah, and then up to ten is the most day, but the discipline is to cut those number of trades down to those key perfect entries.

Tim Bourquin: All right and then how much profit are you looking for? Where do you know that it's about to turn again and it's time to get out?

Scott Tuddenham: So average daily ranges are a good indicator of where it is and so I just take the meat of that. Also, when it plays back up into the range in the beginning that's, you know, where they originally hedged so the probability starts to drop off once it reaches back into the range of where it was in the previous session.

Tim Bourquin: Okay. Now I know that you're looking for a certain amount profit every day. Do you have like a dollar amount goal that you're looking for orâ€¦? [0:10:04]

Scott Tuddenham: Yeah. So, no I don't actually. I originally did, I used to but I found that when you do that, that you start to create expectations of what you need to make for the day and so start taking trades that are not necessarily pristine obvious plays, but are merely taken to reach that benchmark. It's a tough call because if you want to measure your progress, you need to have benchmarks and see performance gains. So I try to measure it on the weekly gain to say, okay, this was a better week than last. So I'm not necessarily trying to hit a daily target per se.

Tim Bourquin: Can anybody use this kind of system regardless of their account size or is there kind of an ideal account size that you think it has to be?

Scott Tuddenham: Yeah, any account size. It's just the number of contracts you're putting on. So anyone from the small retail guy that has a few thousand to the institutions. I know you run into liquidity and fill rates but those are fringe concerns.

Tim Bourquin: Now, I know also that a lot of Forex traders do look at kind of events coming up if there's an FOMC meeting or the Euro zone has a big bank that's meeting. I mean do you track any of that or is it really, it's in the price, I'm not worried about any of the news?

Scott Tuddenham: I am aware of every news announcement. The funny thing that you start to see is that you'll see positive news announcements for any given currency and say the Pound and it seems as though it's all positive news and that the Pound drops on the news and you'll see the next day negative news for the Pound and price rises. And you say okay, how does that make sense until you realize it has nothing to do with the actual news, that the banks use those news announcements. They know they're coming out as well and that they know every small hedge fund is looking at those for significance and use those as the catalyst to spike prices to where they need to.

Tim Bourquin: Got it, okay. How about Forex trading in general? Did you start out trading Forex or did you trade other things first and then come across this?

Scott Tuddenham: I've been marginally trading stocks my whole life more buy and hold mentality growing up. Then as I watched my 401k get ripped in half a number of years ago, I started increasingly taking on my own trading more and more and more and, yeah, it became -- once I discovered what was going on in the Forex world, I kind of pushed everything else aside and now focused primarily on doing this.

Tim Bourquin: So, you feel like this is really reason why 95% of Forex traders lose money is because they just don't understand what really moves a price?

Scott Tuddenham: Yeah, in essence and this is no belittlement to any of the traders. I was definitely one of those people before, but understanding that you are trading against someone who is very good at what they do, this is some of the highest paid professionals in the world and they win at the game that they play by beating you at it. So they do everything, they have an arsenal and a tool chest and all kinds of infrastructure at their disposal to see where you're trading and to trade against you. So understanding how they operate and just basically flipping your mentality to trading in line with how bank traders trade is really where I've come from.

Tim Bourquin: When you do have a loss, do you put in stops and then you wait again for it to turn around at the point where you are right or where do you think goes wrong when you took a loss using your system?

Scott Tuddenham: What goes wrong when I take a loss, obviously it's just a stop out. When those levels are broken that to me is saying okay, there's other things coming on that the price was not warranted, they need to induce more so to speak. They'll drive it down again so I'll wait for something else to play out. For me, it's a loss, okay I didn't get it right, I'll just cut it and try and cut it quickly, keep it small and then just clear it and move on.

Tim Bourquin: How tight do you keep those stops to minimize the losses?

Scott Tuddenham: So that answer is the classic it depends on the entry, how far off the low I've pulled it. So the entry depending on how cleanly and quickly I've gotten in that then warrants out to become the low then I can pull the stop to be very, very tight, very tight. Other times, I'll have to reduce the lot size and maintain a larger stop loss to maintain the same level of risk.

Tim Bourquin: Yeah. Are you using a trailing stop as it goes in your favor?

Scott Tuddenham: I am not, no, not at all.

Tim Bourquin: All right.

Scott Tuddenham: I wait for those limit orders to pick up on the other side.

Tim Bourquin: Okay. How about scaling in or scaling out?

Scott Tuddenham: Definitely scale in, yeah.

Tim Bourquin: What's a full trade for you then?

Scott Tuddenham: A number of scale ins. So once you're understanding what's going on that causes price to move the way it does at certain times then it becomes advantageous to scale in at key levels across the run. So you'll see what amounts to small consolidation zones and bursts, small consolidation zones and bursts and I guess that's just a visual way to describe it. That's how it was initially explained and how I tried to interpret it. What's really going on is they're just constantly reshuffling the books from the institution side to the profit side to net out their positions and as soon as those bounced into knockout stops and to see where the limit orders are, they'll basically intentionally fluctuate it back and forth. But on aggregate it'll rise and so if you can catch those key moments it's scale in then, scale in again, scale in again, and then kill it all at the end. [0:15:46]

Tim Bourquin: All right. Then what timeframe are you typically watching these on a chart? You'd mentioned a couple of candlestick terms so you're probably watching candles but on what timeframe?

Scott Tuddenham: I have a number of charts. I don't tend to look at them per se. And the thing about where I differ from most people in their analysis of charts is if you're looking it's basically a fragmentary picture of what's occurring that's an ongoing -- you know, it's like snapshot of an ocean that's constantly moving. So I tend to look at the price board a lot more, which is constantly moving. So the thing with charts that people that play patterns that get them tripped up is that if you just time shift it when the charts are painting then it's a necessarily different picture, which to me is to make trade decisions on something that, in essence, changes if you just change the time stamp on it is ludicrous to me. So I don't tend to pay attention, although I do have charts just to see okay this is where they were yesterday.

Tim Bourquin: All right. So you mean the picture is different on a five-minute than it is on an hourly and so that's why you don't find the value?

Scott Tuddenham: Right. But it's the same information, it's the same price movement it just looks different. So how can you make a decision on something that is what it is, but somehow looks different. To me, you know, that's the recipe for an erosion of an account, which is what a lot of people have unfortunately.

Tim Bourquin: So you just watch the price themselves, the price changing up and down and you're able to get a view for the behavior just by watching that. You can see it moving more quickly or more slowly that sort of thing?

Scott Tuddenham: Yeah, yeah. The charts become a historical reference of seeing what did happen, right. So you're kind of behind the curve when you're looking at a chart, in essence.

Tim Bourquin: Right. What things do you think that you still could do better with your trading? Are there things you're still working on, things that you feel like you still need to get better at?

Scott Tuddenham: Yeah, absolutely. I think the entries are obviously the whole game. If you get the right entry then all else kind of takes care of itself. Everything that's not in the charts, I guess, you know, I break trading down into two camps, it's what's going on in the markets and what's going on in yourself. I know there is obviously always more to learn about what's going on in the markets, but pointing the finger back inwards and improving upon the discipline in the trade management and the patience, and all of the psychological factors that play into making a great trader. You know, a lifelong learner of this so I guess have things to learn as everybody does.

Tim Bourquin: Do you read books or do recommend any book that has particularly been helpful for you?

Scott Tuddenham: Yeah. I mean I've read most all of the top brand name trading books, a lot of the psychology books, all the market wizard interviews. They're helpful in anecdotal ways I guess, definitely helped along the way, but I wouldn't point to them for sound trading decisions. I mean if any of those contained anything then that would kind of already be well known on the street and that's just not the case and for good reason.

Tim Bourquin: All right. Then finally how long did it take you to get confident in your trading strategy?

Scott Tuddenham: Well when I started speaking with these bankers, they kind of came together pretty quickly shortly thereafter and kind of forming a cohesive framework on which to trade. So within a matter of months after speaking with them and kind of learning the game from the inside, in essence, was when my trading genuinely turned around and pretty quickly thereafter, yeah.

Tim Bourquin: All right. Then do you have finally a number, a percentage of winners versus losers that you shoot for or doesn't matter to you?

Scott Tuddenham: Yeah, no. I definitely shoot for the high 70s or 80s. I know some of the best bankers say they're in the 60s and then the risk to reward they make up for it phenomenally. But I am interested in a very high success rate because to me that confirms yes, you know what you're actually doing, you know where price is heading. To me if you don't know where price is heading and you're taking a position that's akin exactly to gambling and I have no interest in doing that. That's not what we're here to do. So, yeah, when you know you're right, you're right and it plays out pretty quickly in your favor so. [0:20:03]

Tim Bourquin: All right. And, Scott, if somebody wants to get a hold of you to find out more about you and how you trade, how should they do that?

Scott Tuddenham: I guess point them to the website, it's PomTrading.com or they can send me a personal email. I don't know if you want to put that up on your site somewhere?

Tim Bourquin: Sure. So you said PomTrading.com, I think, right?

Scott Tuddenham: Yeah, that's the one.

Tim Bourquin: Okay. I'll tell you what, well let's just do that where people can get a hold of you, listeners can get a hold of you, go into your website there.

Scott Tuddenham: Sure. Okay.

Tim Bourquin: All right, Scott, thanks for your time today. I really appreciate it.

Scott Tuddenham: Thank you, Tim. [0:20:35] End of Audio