What Does It Really Take to Succeed?

20 Habits of Wealthy Traders – Part 1

In the course of interviewing hundreds of wealthy traders over the past years, we at www.TraderInterviews.com have noticed a pattern. Listening to them talk about how they make their living in the markets, we began hearing them say similar things about how they approach every trade. When traders who all make over $200,000 per year say the same things, being traders ourselves, we listen. Through those hundreds of interviews, some over the phone and some in-person, we compiled a list of 20 habits that are common among almost every wealthy trader with whom we have talked. Some will be familiar to you, others may be surprising. Either way, we hope you will find at least one or two habits you can add to your own trading plan to make more money, more consistently, as a trader.

1. Wealthy Traders Are Patient with Winning Trades and Enormously Impatient with Losing Trades

This first habit is straight out of Dennis Gartman's (TheGartmanLetter.com) trading playbook. Most traders become very anxious with winning trades because they do not want them to become losing trades. That is a good thing – until their impatience forces them to exit their winning position too early and leave money in the market. On the other hand, how many times have you said to yourself, "I am going to let this losing trade go just a little bit longer and see if it turns around." You have just been patient with a losing trade and impatient with your winner.

Wealthy traders flip this thought process around and do exactly the opposite. When they have a trade that is going well and is profitable, they remain patient to see how far it can really go. When they have a trade going against them, they immediately exit to limit the loss and begin looking for the next opportunity. If you have set a stop loss, never move it in the hope that your trade will turn around – it rarely will and will only increase your loss for the day. Start being patient with your winners and impatient with

Tim Bourquin

Tim Bourquin is the co-founder of TraderInterviews.com and both the Traders Expo and the Forex Trading Expo. While a police officer with LAPD, Tim was trading the stock and currency markets by morning and arresting criminals by night. Each month Tim interviews successful full-time traders and asks them tough questions about the strategies they employ, the software they use, and how they became confident in the markets.

your losers – it is the first step toward joining the minority ranks of wealthy traders.

2. Wealthy Traders Realise that Making Money Is More Important than Being Right

It is human nature to want to be correct in our assumptions and predictions on the market. We all want to believe we are interpreting market data properly and have made the right choice to go long or short the market. But wealthy traders rarely have a bias on the market prior to the open or any time prior to entering a trade. Once they do make a trading decision, if the trade becomes a loss, indicating they were initially wrong, they will have no problem immediately making a trade in the other direction.

I have interviewed successful traders who form a bias in the morning and will only trade in the direction of that bias for the day, but they are rare.

Instead of trying to force their opinion on the markets, determined to prove themselves correct, wealthy traders will switch sides at a moment's notice if the market tells them it is time to do so – even if they were "sure" the market was going to go the other way that day. Being right is not important – growing their trading account and net worth is.

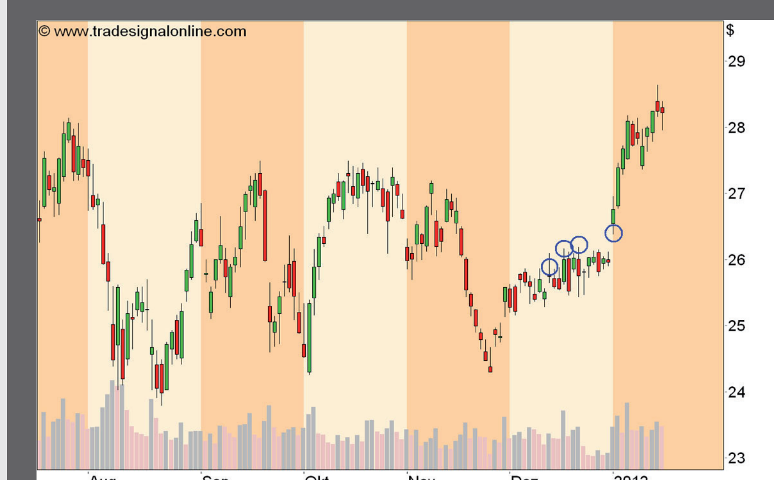
3. Wealthy Traders View Technical Analysis as a Picture of Where Traders Are Lining up to Buy and Sell

Many traders view moving averages, Fibonacci and trendlines as exact places where price is expected to turn and move in the opposite direction. Successful traders do not view technical analysis that way. Wealthy traders see charts as snapshots of where traders are lining up to buy or sell. Instead of seeing bars, lines and clouds, wealthy traders see price points where traders have placed orders to enter and exit the market, either as stop losses or entry points. The stock, option or futures contract has no idea where it will find support or resistance. It is the market participants who determine this and experienced traders know this and will place their own orders around those levels to take advantage of the 95 per cent of traders who lose money trading.

4. Before They Enter Every Trade They Know Where They Will Exit for either a Profit or Loss

We have all heard that we should be using stops whenever trading to avoid large losses. However, very few traders actually know where they will place a stop and a profit target before they enter every trade. Wealthy traders leave nothing to chance and plan every trade in its

F1) Focus on the Loser Trades



Wealthy traders are patient with winning trades and enormously impatient with losing trades. While a breakout trader had to cut losses in Microsoft (MSFT) in December, he would certainly let run his profit in January for a while.

Source: www.tradesignalonline.com

entirety before they even enter.

Your written trading plan should have objective measures of where your stop loss should be placed as well as where you will take profits. Not knowing, or simply guessing at where these price points will be after you have entered a trade can lead to indecision or price targets outside of the average range of the security you are trading. Why set an arbitrary profit target of three points when the average range of that market is only two points?

Furthermore, wealthy traders set position sizes and stop losses that are almost always a function of their risk tolerance for any given trade. For example, if the maximum risk on any one trade is two per cent of their trading account, the number of shares they will trade (based on the price of shares) and a reasonable stop loss is calculated before the trade is placed. We rarely talk with a wealthy trader who says their position size is 1000 shares. They usually tell us it depends entirely on what they are trading. They take their maximum acceptable loss and work backward to find a stop loss and position size that matches that objective measure.

5. They Approach Trade Number Five with the Same Conviction as the Previous Four Losing Trades

We have all had that run of bad trades that shakes our confidence in the "edge" we think we have in the markets. Our setup appears again and instead of taking that fifth trade, we hesitate, not wanting to endure another losing trade. Of course, that fifth trade would happen to work beautifully and not only would have made up for the previous four losses but put us net-positive for the day. Unless the market has indicated something has changed and we truly believe our strategy is solid, there is no reason to hesitate if the trade setup presents itself.

Even automated system traders will tell you that a run of losing trades that goes beyond the normal drawdown in back tests is normal. The key, of course, is knowing when your "edge" is no longer an "edge" vs. a statistical run of trades that just have not worked out.

Wealthy traders are able to shrug off losing trades and enter the next trade with the same enthusiasm and confidence they had on the first trade. Teammates of Evan Longoria, an All-Star baseball player for the Tampa Bay Rays, often describe his batting success as his ability to forget about the previous bad swing or missed pitch and focus solely on the next pitch coming toward him. Wealthy traders have mastered the ability to forget about the previous trade and focus exclusively on the next opportunity.

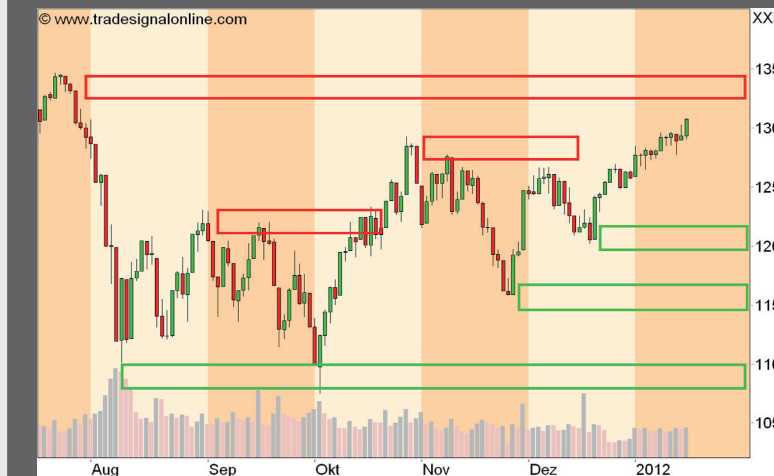
Your trading plan should include some sort of consequence for a string of losing trades. For Tim Bourquin personally, after four losing trades in a row, he forced himself to trade a single share of stock until he felt confident in his trading decisions again. Yes, commissions wiped out any profit on a single share of stock, but he would much rather pay a commission than take a large loss trying to force his will on the market.

6. Wealthy Traders Use "Naked" Charts

When we first begin trading, we want to see confirmation from as many indicators as possible before we would enter a trade. We put so many lines, arcs and levels on our charts we could barely see the price bars beneath. As we mature as traders, we begin peeling off those indicators and eventually came back to charts that had price bars, volume and pivot points that represented previous highs and lows. Nearly every wealthy trader we interview tells us that they watch one thing on their charts: price. By "naked" charts we mean those that are barren of indicators and show just price and perhaps volume at each price level.

At some point in everyone's trading career, they realise there

F2) Analysing Charts



Wealthy traders view technical analysis as a picture of where traders are lining up to buy and sell. Analysing the S&P visually provides insights to where potential buying (see green areas) and selling pressure (red areas) will occur with high probability.

Source: www.tradesignalonline.com

F3) Knowing What to Do in Advance

Before they enter every trade professionals know where they will exit for either a profit or loss. Trading the breakout at Amazon (AMZN) shown above, the stop could be at 173 and targets at 195 and 215 (each slightly below the corresponding resistance levels).

Source: www.tradesignalonline.com

is no magic indicator, no matter how hard they look for it. The only thing that matters is price – and supply and demand at that price. If you have an indicator you feel gives you greater insight into future price movement, excellent. Just know that too much faith in any one, or combination of indicators, is sure to fail at some point. Wealthy traders firmly believe in the phrase, “Price pays” and are able to trade with nothing but information on price and the demand in the market at that price.

7. Wealthy Traders Are Comfortable Making Decisions with Incomplete Information

Many traders we speak with at events like the Traders Expo talk about getting to the point where trading is easier and comfortable. They yearn for the day they are relaxed while trading and make money on a consistent basis. Unfortunately, we have to inform them that even the best traders are slightly uncomfortable sitting in that chair in front of their trading platform. The difference is that they have become comfortable with that gnawing feeling we all get that we are making decisions based on incomplete and imperfect data. It is likely you will never be totally comfortable with your decisions because you will never have enough information to know absolutely you will be on the right side of the market.

Wealthy traders have come to terms with this fact and have been able to make good trading decisions in spite of that uncomfortable feeling in the chair. They acknowledge it and yet they are able to make clear decisions based on what they know and see. The day trading is “easy” never comes, yet they are still able to acquire incredible wealth trading the markets.

> “The middle of the trend is where the money is made.”

8. Wealthy Traders Stopped Trying to Pick Tops and Bottoms Long ago

Most of the traders we talk to that are still struggling to find their “edge” in the markets are trying to pick tops and bottoms. Whether it be on a 1-minute chart or a daily chart, most traders are using every indicator and technical analysis tool they can find to spot those areas where price is going to reverse course and head the other direction. Wealthy traders do not try to anticipate the top or bottom. They wait for it to happen and then capture the “meat” or middle of the move after it has started. The question they ask is, “Has the new direction been confirmed?” as opposed to most traders that ask, “Is the trend ready to turn?”

Wealthy traders realise that the middle of the trend is where the money is made, not on capturing every last tick time perfectly at the top or bottom. That is why most traders are afraid to buy all-time highs and sell all-time lows. Yet wealthy traders know that is the best place to buy or sell. A trend is much more likely to continue than it is to reverse, so why are most traders trying to find that turning point instead of buying or selling the existing direction? Of course this does not mean you do not protect yourself if it does turn, but trying to capture that final upward tick before it heads lower is a fool’s game. Wealthy traders do not so neither should you.

F4) Naked Charts

Wealthy traders use “naked” charts. As can be seen with the example of JDS Uniphase (JDSU), important information such as the absolute level of a stock as well as its volume, volatility and support/resistance can immediately be recognised without using any further instruments.

Source: www.tradesignalonline.com

9. Wealthy Traders Do Not Think of the Market as "Expensive" or "Cheap"

Watch any business television channel for a while and you will hear commentators refer to a stock or the oil market as looking "expensive" or "cheap at these price levels." The vast majority of market participants will look at a stock and judge it to be "expensive" simply because it has had a long run to the upside. 25 cent call options that are far out-of-the-money a week before expiration are "cheap" because the maximum you can lose is a quarter, right? Wealthy traders do not view price that way.

The only thing that matters to traders is this: Is someone going to pay more or less for this stock five minutes from now, an hour from now, or a day from now, depending on their time frame. Google at $650 is not expensive if someone is willing to pay $651 for it in 30 minutes. Likewise, penny stocks are great because you can buy a lot of shares in a small account, but is $2.00 really a good buy if tomorrow they are only worth $1.50?

Successful short-term traders who make their living buying and selling only care about being able to profit on something during their holding period. Leave the arguments about whether $150 oil is ridiculously overvalued in the context of the current political climate for the long-term investors and talking heads on TV. If we believe someone will be willing to buy oil futures at $505 in two hours, we will buy $500 oil all day long.

There is no "cheap" or "expensive" in the eyes of a wealthy trader.

10. Wealthy Traders Are Aggressive with Size When They Doing Well and Modest When They Are Not

Dennis Gartman is famous for telling traders, "Do more of what is working and less of what is not." It seems simplistic but you would be surprised how many traders try to make up for losses by simply doubling their share size with the same strategy. They also fail to capitalise on those trades that become gains immediately and anxiously sell their positions just at the time when the wealthy trader would be doubling their position. Once again, the inexperienced trader does the exact opposite of what a wealthy trader would do.

Wealthy traders are masters of piling on huge size when they are trading well and feel like they are interpreting market data properly. They are also experts at reducing position size dramatically when they are not. Instead of attempting to make up for losses by adding size, they quickly scale back to tiny positions until they are "reading" the market with more confidence.

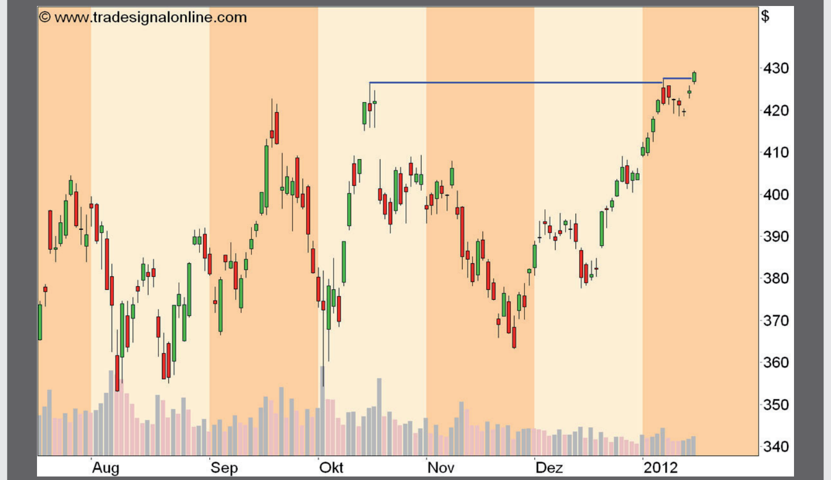
Almost every wealthy trader we have interviewed has told us that just one or two trades a month, make their month. Some have said that one or two trades a year, make their year. Imagine the patience it must take to wait for those special trades every month or year. Wealthy traders possess that patience.

They are quick to recognise those "make my month" trades and will quickly scale in with extra size once their initial positions show profits. They trade normal position size and make some then lose some. But when the one or two trades come along they feel very strongly about, they scale in big and with enormous confidence. They take "letting their winners run" to the extreme and are able to see that "great trade" materialise before their eyes.

This does not mean they throw their risk parameters out the window. On the contrary, their risk tolerance remains as disciplined as ever. But they realise that not taking advantage of the opportunity at hand can also cost them money. Knowing when those trades come along is a matter of experience and confidence in their trading system.

Stay tuned for Part 2 where we will reveal habits 11-20 of wealthy traders.

F5) Do not Think in Terms of Expensive or Cheap



Great traders do not think of the market as "expensive" or "cheap". While a fundamental analyst would have considered Apple (AAPL) as sell a long time ago, all a great trader would see is that this stock is making new all time-highs and the stock therefore – as of that point in time – keeps up being a buy.

Source: www.tradesignalonline.com