

NEAL T. WEINTRAUB

TRICKS *of the* ACTIVE TRADER

An Insider's Techniques
for Getting the Edge



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for Getting the Edge

NEAL T. WEINTRAUB

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Foreword

In February, Neal and I were in New York for a meeting and, as luck would have it, it was two days after the biggest snow storm in New York's history. As you can imagine, the normally 20- to 30-minute cab ride from LaGuardia to Midtown took an hour and a half. With the conversation pertaining to the impending meeting exhausted, Neal abruptly changed the subject by announcing that he was in the final stages of writing his latest book, *Tricks of the Active Trader*. My initial reaction was, "Not another how to day trade book." Neal assured me it was not another day trade book, and, after reviewing it, I agree.

I like this book because Neal's concept is there is not one way to trade. He writes that a trader should be active, and reminds the reader that active can mean doing nothing. You act, when you do nothing, by making the conscious (hopefully informed) decision to take no action. Many years ago, when I was just starting my trading career on the floor of the Chicago Board of Trade, one of the venerable traders told me that, more often than not, it was good business not to do business.

The meaning of "trading" has changed over the years. During that same cab ride Neal showed me a notebook that his father, who was a prisoner of war during World War II, had kept during his imprisonment. The U.S. prisoners were allowed to read books that were sent by the Red Cross. One of the books Neal's father read, and made notes about, was a book on investing that was first written in 1933 and a second edition in 1939. From reading the notes I

realized that in 1940 trading really didn't exist. Although there was a small group of traders on the BOT and the CME, the global economic impact of their efforts was minor and very few people, even in Chicago, were aware of their existence. Reading the notebook I realized that, at the time, speculating meant buying an undervalued stock and holding on for years. The word "trading" was not even used. During the ensuing 70 years trading has become part of the lexicon of investing. Obviously, markets have changed dramatically. Markets are now global, and information travels in nanoseconds. The Internet, TV, telephone communications, electronic trading, etc. have geometrically increased the speed and breadth of the dissemination of information, and the sheer number of markets available to trade throughout the world is growing exponentially.

You have to take control of your finances. As recent history has shown, there is no more relying on pensions for your retirement. Reading this book will not leave you with specific rules for financial success. Rather, the book focuses on the proper mind-set an individual must possess in order to achieve success in today's markets. I suspect that sometime in the latter half of this century someone will read this book, much as I read Neal's father's notebook, and be amazed how the markets of that time have so dramatically changed from today.

Laurence M. Rosenberg
Chairman
Lake Shore Group of Companies
www.lakeshorefunds.com
September 2006

Introduction

In a letter between fellow scientists, Isaac Newton wrote to Robert Hooke on February 5, 1676, modestly claiming that his success had been built on the achievements of others: “If I have seen further it is by standing on the shoulders of giants.”

If I have seen further, it has been by observing traders, speaking with them, and learning with mixed results about their tricks, tips, traps, and techniques.

Besides standing among trading giants, I have been privileged to be with firms such as MTV, Nickelodeon, the Disney Channel, and the Chicago Board of Trade, along with the Movie Channel and the National Association of Realtors.

Today, with gutted pension funds, massive layoffs, and inflation, investors are taking an active role in protecting and advancing their financial portfolios. The days of corporate America being your financial partner are gone.

Unfortunately, I also have observed munchkins masquerading as titans of industry and traders confusing luck with skill. Many firms have imploded because of the greed, avarice, and incompetence of senior managers with “top tier” educational credentials, Ponzi personalities, designer suits, and the obligatory Rolex or Piaget.

The collateral damage from this unbridled use of corporate greed would make the great magician Harry Houdini jealous. Pension plans and dreams of a happy retirement, money for college tuition, and dignity in one’s golden years have vanished

like simple prestidigitations. What once took months now occurs in weeks.

Why be an active trader? Because of the *Titanic* effect. As Kenneth E.F. Watt once said, "The magnitude of disasters decreases to the extent that people believe that they are possible and maximize the effect."

We will have another market disaster. Plan for it. You must.

There may not be shoulders to stand on. You may not even be standing on your feet.

If you are curious about adding computer firepower to your trading, this book will point the way.

Patrick Young told a group of traders at the Chicago Mercantile Exchange: "But what you've got to bear in mind is, very quickly, your cost base can explode on you. And like I was saying yesterday, what you really need is a couple of PCs. One that does your entry and does your transactions, one that does your analytics and gets you onto the Internet and gets you research and gets you news. You need to have one with some sort of analytic software or perhaps a couple of pieces of analytical software, depending on what sort of analytics you are going to employ . . . whether it's technical analysis, whatever. But what you don't want to do is sit there and buy a huge amount of stuff. One of the biggest follies I've seen in a lot of electronic traders is they can sit down and end up with anything up to a several thousand if not \$5,000 a month overhead before they go anywhere. And frankly, they don't need that stuff. Okay?"

To be brutally honest, you're better off starting with a relatively minimal amount of stuff and, as you find a need for something, adding to it. As long as you've got reasonable price data and as long as you've got a reasonable quantity of analytical software, whether it's a simple technical analysis package or anything like it, you can start trading.

Being an “active trader” has nothing to do with kinetic energy and everything to do with control. Your being in control.

In my view, individuals are taking charge of their own portfolios even as brokers claim that they not only will give advice but also insist on trading the investor’s funds. If it doesn’t work out, it’s not the broker who loses; it’s going to be you.

Being an active trader will not ensure your financial success. All motion is not progress, and spinning your wheels just burns rubber and gasoline.

Remember the tortoise and the hare? Who won the race?

If you are too active a trader, I hope this book will aid in honing your trading skills and help you evaluate your style of trading.

Using the Barbells

At a recent seminar on computer trading, Jim Oliff, vice chairman of the board of directors for the Mercantile Exchange, noted that the first item you should know about trading is yourself.

What is your motivation for trading?

Do you have the experience, knowledge, stamina, and capital for aggressive active trading?

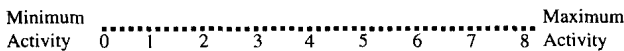
One of the most difficult assignments I give students is to write a trading plan. If you can’t write it out, you most likely don’t have one. And without a plan, you are at the mercy of the unpredictable nature of the markets.

As you move along the path to becoming an active trader, a coherent written plan is vital.

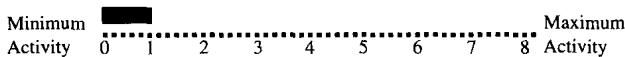
Creating an investment portfolio or a trading plan is not a one-time event. You may have created a portfolio, but the financial market changes. No doubt your personal goals, risk tolerance, and time horizons also change.

Thus, if goals, risk tolerance, and time horizons are part of your trading decision making, you will trade less frequently than a trader who trades to earn an income.

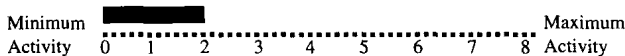
For this reason we have constructed a linear bar for each trick of the active trader. We call these illustrations barbells.



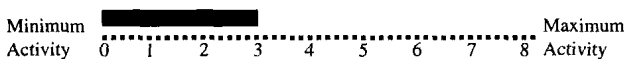
No activity. Doesn't even think about trading or investing. The market is a grocery store.



Usually a long-term investor. Maybe does one trade a year. Relies on a pension or a 401(k). Does not pay much attention to investing or trading. Too complacent.



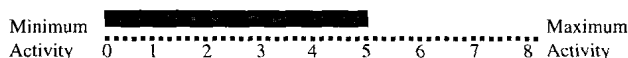
Checks portfolio. Has a balanced approach but usually has no plan or strategy.



Has an interest in trading. Pays attention to the newspapers. May prefer other investments.



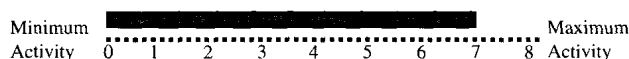
Reads about trading and is ready to pull the trigger. Looks at trading as another investment vehicle. Subscribes to a paper that has stock quotes.



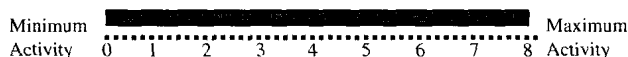
Mixes investing with short-term trading. Pulls the trigger. Knows the difference between investing and trading.



Has a computer. Uses various front-end systems. Usually has no backup for hardware.



Trades for an income or does it as a full-time job. State-of-the-art trader. Has low brokerage rates. Has an objective.



Hyperactive trader on steroids. Walks a thin line between trading and gambling. This person is one step below a kamikaze pilot. A trading addict.

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