



# ALL IN: Committing to full-time TRADING



## Thinking of quitting your job and trading full-time?

It may be more difficult than you think.

Read the story of somebody who took the plunge  
and knows what it's like in the deep end of the pool.

**T**he day I first set foot on the floor of the Chicago Board Options Exchange, I knew my life's calling — I had to make the adrenaline rush of the markets a daily event. Although my visit was brief, the wheels started turning the instant I left. How could I make a career as a trader happen?

This inspiration took place in 1989 as I was completing an MBA. I was determined to get my foot in the door, so I commuted several hours a day to make \$5 an hour as a runner on the Chicago Board of Trade. Although my wife didn't understand why an MBA would want to stoop to such levels, she supported me.

I spent the next 13 years learning everything I could about options and trading, and I slowly moved up the corporate ladder. At the peak of my career I was the senior VP of a large brokerage. I had an excellent salary and had helped build a state-of-the-art firm, but something was missing. My dream to trade was unfulfilled.

I had a heartfelt conversation with my wife about what I wanted to do. She had reservations about the viability of my plan, but she understood my passion for trading and supported my decision. I closed the book on a successful brokerage career in September 2002 to chase what had, up to that point, been an elusive dream.

But this time around the risk was even greater. I was 13 years older and I had a family of five to support. My wife and I had structured our lives so she could dedicate herself to raising our children. I would continue to be our sole source of income. The brokerage industry had been downsizing for years, and I knew that I would not be able to regain my salary if things didn't work out. The door would close behind me.

The market had lost 40 percent of its value the prior two years, and the U.S. was threatening Iraq. Trading is always tough, but these were extreme circumstances. Over the years I had seen thousands of traders "crash and burn," and I knew the slim odds of success. The markets eventually humble everyone and, yes, I too had been marched out on stage with my pants around my ankles in my previous trading efforts. My wife knew all this, and she had an equal stake at hand. We were "all in."

### Thinking things through

Like all traders, I believed I had the "right stuff." On the floor I studied the strategies and learned the mechanics of execution. I always made time to "talk shop" with market makers, and over time I gained their perspective. Off-floor, I had assembled one of the largest institutional and retail option order-execu-

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BY PETE STOLCERS

Trading is the easiest business to start  
and the hardest one to grow.

tion operations in the nation. It was my responsibility to monitor margin and risk for retail traders on a daily basis.

In the process of helping my customers with their decisions, I was able to identify some of the keys to success and failure. Throughout my career I had traded my own account and tried every strategy imaginable. Armed with 13 years of industry and trading experience, I felt I was ready. My experience in the industry had given me valuable insights and my eyes were wide open. I knew the following factors would influence my success:

First, I was aware that “scared money never wins.” I men-

of my personal and professional expenses.

I then accounted for income taxes and calculated that I needed to make \$100,000 per year just to break even. Assuming there were about 250 trading days in a year, \$400 a day would cover me, and \$500 a day would actually yield \$25,000 a year in profit. All I had to do was to find one trade a day where I could make a half-point on 1,000 shares — how easy!

I knew better. When you work for a salary and you have a bad day, you can come home and kick the dog — but you still get paid. When you have a bad day as a trader, you don't get

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tioned the market had previously humbled me — i.e., I blew out my trading account. I don't think anyone can truly know if they'll be a good trader until they've tested that low. That experience challenged my determination and yielded a respect for the unexpected.

As an “enlightened” trader, I realized that I would forever be a student of the market and that I had to size my positions to regulate fear. The humbling experiences also led to the most terrifying moment I've ever faced — telling my wife. This was a cleansing process that forced me to admit my failure. I felt that I had this “house” in order and that I would not repeat my mistakes.

Trading would test my mettle and I could not have a partner who second-guessed me every step of the way. We had a collective agreement that \$150,000 was my stop-out point. This was my dream and I knew that I needed this cushion to protect my psyche. An under-capitalized trader would be trading with “scared money,” but I believe I had that covered. We also agreed to reevaluate the situation after one year.

My motives were clear — trading was my passion. Unlike many others, I was not doing this to get rich quick, spend more time with my family, or be my own boss. There were many books and seminars that promoted such motivations.

I knew that if I was not eager to eat, sleep, and drink trading, my chances were slim. There was a reason I'd never met a professional trader in a social gathering — it's tough. With low barriers to entry, anyone with a wallet can play. It was the easiest business to start and the hardest one to grow.

### Down to brass tacks

My trading account was funded with \$250,000. If I used margin, I had \$500,000 of buying power, which seemed adequate. I intended to focus on day trading, which allowed me to limit my overnight risk exposure. I added up all of my expenses and calculated I would need to make \$7,000 per month to cover all

paid — *you* pay the market. A day where you lose \$500 has to be followed up with two days of \$1,000 just to get you back on track. From another perspective, I would have to generate a 40-percent return ( $\$100,000/\$250,000$ ) to break even. Many top professional money managers make far less. This was not going to be easy.

### From talking the talk to walking the walk

In August 2002, I resigned from my brokerage position and set the plan in motion. I had been trading successfully for 15 years, but I always had my salary to fall back on. This time I did not have that safety net and I knew that my family's livelihood depended on my success.

I'll never forget the first time I sat in front of the screen and wondered, “Where are all of these great ideas going to come from?”

I surrounded myself with technology and I dove into various trading manuals. After a few months of testing I realized the clock was ticking. I've never met a person who lost money paper trading; I believe lessons are learned with real money. I had lost about \$10,000 and the software programs were not helping me.

I knew the types of setups I had been successful with in the past, but I could not find a data or analysis program that would deliver the results. They were all too restrictive in terms of the symbols I could access or the criteria I could search for. I realized I would need to develop my own solution.

I worked with a couple of programmers and they developed an open application that allowed me to create customized searches. I started to run queries and the refining process began. It was December 2002 and I was four months in. I had lost about \$20,000 and taken out about \$30,000 to cover living expenses.

Although I felt I was beginning to find my way, the noose was tightening. I was already one-third of the way to the stop-out point my wife and I had agreed upon. I knew the risks going in

and I also knew it would be tough. The market was miserable — and it also was apparent the U.S. was going to invade Iraq.

But I wouldn't let myself short the market. It was so oversold I could just *feel* the spring coiling. It was just a matter of time before it released, I thought.

highest probability trades occur. Six patterns were particularly interesting, and I was able to define searches that would find the stocks in which they appeared.

My research was about to start paying dividends in a number of ways. The market was going gangbusters, and by

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Unfortunately, I was not having any success going long. Every time I did, my trades died a slow death, which wore me out. As I refined my trading methods I learned to size my positions according to my opinion, which helped me control my emotions. This aspect of trading was foreign to me; previously, I had a primary income and I did not have to sweat every loss.

### Turning the corner

In January 2003, things started to look up. I kept studying charts and patterns and I continued to work on my searches. Cable broadband Internet finally came to my subdivision, which was a big opportunity for me.

For months, I had been talking to a proprietary trading company that specialized in options. They were willing to back me, but they needed assurance that I had reliable broadband to run their systems. They had a data feed, a server farm, and a software application with an edge. After a month of training and gradually increasing my position size, I was getting proficient.

It was common for me to look at more than 3,000 trading opportunities a day and attempt 350 executions. On average I would fill 70 orders and trade more than 2,000 contracts daily. It was intense and exciting. The opportunities required very quick trade identification and reaction. I was competing with the auto-quote systems developed by large trading firms, as well as with other traders from the firm using the same system. I was starting to make money on a consistent basis, but it was not enough to cover my expenses.

In April of 2003, the U.S. invaded Iraq and the quick "victory" helped fuel the market. The aforementioned spring released and there were opportunities galore. I had been cutting my teeth on a new software application in a lean market. Now that activity was back, it seemed like shooting fish in a barrel. The system worked well and I was covering my expenses. The lows were in and my drawdown was over before I hit my stop-out point.

I continued to work on my search programs and was able to use my trading activity from each day for modeling purposes. When you look at a large number of charts in a day, you start to define what constitutes a good chart pattern and where the

September 2003, I noticed the edge starting to slip in the firm's trading algorithms. It was still yielding decent profits, but the number of opportunities and the number of fills started to decrease dramatically.

Without question, we were trading against the auto-quote systems developed by large, deep-pocketed trading firms, and they were starting to close the loop. As with most systems that take advantage of short-term pricing inefficiencies, it was just a matter of time.

My research had helped me identify larger-magnitude moves than the ones I had been trading for the firm, but I was able to utilize their existing program in a modified way to generate ideas. They made the program less restrictive for me so I could see more opportunities. The premise was that quick moves would knock the option prices out of whack momentarily and the system would show me the stock.

Once it was on my "radar," it became a directional trade as opposed to a scalp. I realized the power of pattern recognition and I incorporated the concept into my own searches. I was able to make money trading the system through 2005, when most other traders had moved on to other methods.

However, even this change eventually ran its course as the big boys improved their systems. I was still able to make money trading conversions and reversals off of the system the week of expiration, and I also made markets for a number of months. This paid the bills, but the trading was a real grind and it was not very emotionally rewarding. It also appeared that the exchanges would protect their members by imposing fees on canceled orders. You can't make markets if you can't adjust your bid and offer without being charged. The threat of this action told me that I should leverage my experience and look for other trading opportunities.

### The next step

In 2004 I managed a few large accounts using my system. By the middle of 2005, it was producing good results. I had categorized all my searches so that I could easily view the charts and know instantly what they represented.

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The problem I faced with most search programs is that they were either too open or too restrictive. If they were too open, there were too many symbols to sift through. If they were too restrictive, the best opportunities fell through the cracks

research. The answers were out there — I just had to find them.

Once the U.S. invaded Iraq, conditions improved. The opportunities were more plentiful and my performance improved. I spent at least 60 hours a week trading and doing

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because they weren't perfect.

My method was able to strike a fine balance. The searches would narrow the universe of stocks down to 500 to 600 symbols, and a simple interface would then allow me to quickly flip through charts and use pattern recognition to identify the best opportunities. I knew a trained eye was the most powerful tool around.

This foundation eventually turned into the bona fide trading system I used for my customers and myself. On a daily basis, I would run through the searches, find 12 to 15 stocks that were strong or weak. Then I would look at the news and the fundamentals to narrow my choices down to one or two stocks. I would again review the technicals and devise a game plan. By carrying a long/short portfolio of stocks that had relative strength or weakness, I found my market risk was greatly reduced.

### Adjusting to the big leagues

As I look back, my ego was my biggest challenge. My colleagues viewed my decision with raised eyebrows, and I did not want to be another casualty of trading. I had a good reputation in the brokerage industry and I couldn't stand the thought of tarnishing it with a "hair-brained" scheme.

Failure was not an option and I did not make contingency plans if things didn't work out. I kept in touch with former co-workers, but I never entertained the thought of going back to my old profession — even in the darkest of times. A sliver of

research. That has not changed, and after I launched a Web site, it became more like 80 hours.

If I had a list of questions prospective traders should ask themselves, it would include:

- Is this your dream?
- Do you have complete support from your spouse?
- Are you willing to spend countless hours every day doing research?
- Do you have at least \$200,000, plus one year's living expenses in reserve?
- Have you already been humbled by the markets?
- Can you get your job back?
- Have you talked to real pros (not seminar instructors)?
- Can you accept failure?
- Do you have a mentor?
- Do you have a system?
- Do you know your strengths and weaknesses?

Your goal from the start should be to devise a system around your trading style. It must be a standardized routine with well-defined steps. It should help you properly size positions, assess risk, and control emotion. It will lend structure to what you do and bring order to chaos. You may have to build it from scratch, or you may be able to borrow bits and pieces from other traders.

Pro football players often talk about how much the game

## Trading will give back what you put into it.

doubt would sabotage my hard work.

This created an extreme amount of pressure. It was very tough to talk to friends, family, and colleagues the first year. I'm not one to mince words, so they knew it was tough. Everyone was concerned about my family. I was, however, able to open up to my wife and I don't think I could have survived without her support.

Basically, I just wanted to lock myself in a room and conduct

slows down after the first few years. Trading is like that. It's never easy. However, with experience you learn how to stay within your game and see things more clearly. I'm convinced that trading will give back what you put into it. But your trading "house" better be in order. It will be tested often, from roof to foundation. 🏠

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*For information on the author see p. 10.*