

 **WILEY** Trading

# ONE GOOD TRADE

**INSIDE THE HIGHLY COMPETITIVE  
WORLD OF PROPRIETARY TRADING**

**MIKE BELLAFIORE**



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# One Good Trade

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# One Good Trade

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*Inside the Highly Competitive  
World of Proprietary Trading*

**MIKE BELLAFIORE**



**WILEY**

John Wiley & Sons, Inc.

*To my Mom and Dad for their unconditional love.*

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# Preface

As the U.S. financial system neared the verge of collapse in the fall of 2008, a 23-year-old prop trader I know was about to pocket \$30,000 for a day's work. Rewind to 1998 when some twenty-something prop traders, discards from the big banks, were putting away more than \$10–25,000 a day without charts, CNBC in the background, a newsfeed, or even air conditioning. So what happened between 1998 and today? The Internet Boom and technical advances caused an explosion in proprietary trading but there was never a book written about it. Now there is.

During the past four years I have been growing a prop trading firm with my childhood friend, Steve Spencer. We started with nothing (not even a phone) and today our firm, SMB Capital, employs more than 60 traders. *One Good Trade* offers all the important lessons the market has taught me over the past 12 years in and around prop trading. I share these market lessons while introducing a cast of characters, some of whom have succeeded, and too many who have failed.

We will start with a look at traders to be emulated like MoneyMaker in Chapter 1, whose previous career as a professional golfer left him with a superior ability to focus, which he now uses daily to chop up the market. You will go inside this previously closed world of prop trading to learn who gets hired (classic Joe Biden story enclosed), how we trade (depends on the market), how we find the stocks we trade (you are only as good as the stocks you trade), our game-changing market fundamentals (*One Good Trade*), and our superior trading skills (It's called trading!). You will garnish a savoring taste of what is really important to become a successful prop trader.

Trading is about skill development and discipline. Unfortunately, too many people think trading is just about making predictions, loading up, and being “the man” by holding stocks (you will meet Crabby, who predicted the whole run in oil and never made a dime as a trader). Being a consistently profitable trader is about doing the thousand little things every day – like proper preparation – that impact your P&L.

As the partner of a proprietary trading firm, I spend a great deal of my time teaching. While I still trade actively, I am mostly a trading coach. What I teach my students and have learned from my traders I will share with you. Lessons like the importance of adapting which one experienced trader, Point-and-Click, was unable to do; he now sells insurance in New Jersey.

The light I shine on the world of prop trading will include my mistakes and those of other prop traders. A great trader is an elite performer. Elite performers spend every day trying to improve. Every day we trade is an opportunity to learn from the market. My mistakes and those of other prop traders are just gifts from the market for us to improve, and they will be shared so you can learn.

My firm, SMB Capital, will be used throughout this book as an example of how prop firms operate. SMB and its traders have been featured in the TV documentary *Wall Street Warriors*, appear regularly on CNBC, and have four regular spots on StockTwits TV. It's an entertaining place! Many of the learning experiences and anecdotes in this book come from my tenure as partner.

Too many traders do not know the stocks to trade and we will discuss how we find the Stocks In Play. Too many new and developing traders cannot Read the Tape and we will argue how that hinders their results. Most importantly, I will walk you through this P&L-changing skill.

After a speaking engagement, I was approached by Dapper Don to explain the value a prop firm can offer and I spend a chapter answering his question. I will debunk the myth that a new trader should seek out a superstar trader to learn best. Many new and developing traders could improve their P&L if they just understood how to "Score," and we will illuminate the importance of loss limits, ending a trading slump, and keeping excellent trading statistics.

A spot on a prop desk is a dream job for many people, yet they do not know how to succeed once they arrive. Bloomberg, CNBC, and Fox offer endless hours of professionals pontificating their opinions. Still, I know of many new and developing traders overwhelmed with information and empty with ideas to improve. We will use an old teaching technique of the head basketball coach at UCLA, John Wooden, to offer valuable suggestions in Chapter 4 (Pyramid of Success).

Along my trading and teaching journey, market fundamentals have been hammered into me by my boss, Mother Market. A trader with poor fundamentals is a ticking time bomb. That is why each trade for us is One Good Trade. At Duke University, Coach Krzyzewski yells, "Next Play" to his players. At SMB, we think One Good Trade, and then One Good Trade, and then One Good Trade. We judge each of our trades based upon whether we have followed seven fundamentals that compromise One Good Trade.

I have successfully navigated many different markets these past 12 years of trading. I will share my journey with the trading set-ups that

worked best for each distinct trading period. Most importantly, I introduce the principle that has allowed me to profit in so many different markets: I adapt.

Welcome to a trading world where you can make your own trading decisions, each day is new, your upside is unlimited, and you likely sit around some funny people. In short, prop trading to me is the very best job in the world.

For the developing traders who are underperforming and for those interested in becoming new traders in the future, this book was written for you. The market has taught me the thousands of little things required to become successful. Many are undervalued by those who have not reached their trading potential. Welcome inside the highly competitive world of proprietary trading. A funny, exciting, enthralling place only for elite performers who master all the skills demanded by Mother Market.

## CAST OF CHARACTERS

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There are some traders you'll get to know very well through reading this book. Traders are known for using nicknames around the office, and our office is no exception.

Mike Bellafiore, Bella  
Steve Spencer  
GMan  
JToma  
Roy Davis  
Alexander James  
The Enforcer  
Franchise  
Dr. Momentum  
MoneyMaker  
The Yipster  
Z\$ (ZMush, Mush, Mushy, and Z)  
G

In addition to their stories, you'll also hear from readers like yourself in the "Traders Ask" sections of the book. There are some questions about prop trading that I receive time and again via e-mail or the SMB Capital blog, and this will help answer some of them.

MIKE BELLAFORE  
June 2010



# Acknowledgments

*One Good Trade* was a collaboration. It could not have been written without extensive contributions from the extraordinary team at Wiley and SMB Capital.

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Thank you to the best trading coach I know, Dr. Brett Steenbarger, for encouraging me to write this book and helping me make it happen. You gifted me the idea for *One Good Trade*, which I may have never contemplated on my own. You have inspired me to become a better teacher, mentor, trader, author and person.

Thank you to all those who have trained and traded with SMB. The best part of SMB will always be you, our traders.

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Thank you to Charles Basner who makes everyday easier for me and a little bit more enjoyable. I hope you enjoy my Seinfeld references.

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When you become great traders please remember us.

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To all those who have followed SMB on twitter @smbcapital, through our blog at [www.smbtraining.com](http://www.smbtraining.com), on CNBC, on StockTwits TV, and reached out to me, thank you. The privilege to meet you and hear your trading war stories is my favorite part of writing.

**PART I**

# **Inside a Prop Trading Firm**

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# These Guys Are Good

I belong to the most exciting part of Wall Street that no one pays attention to. That is, until now.

The kind of trading firm I co-founded, a proprietary trading firm, is not a bailed-out government bank, a broker-dealer, or a hedge fund, though it does run on some of the same core principles as those places.

Proprietary trading firms do somewhere between 50 and 70 percent of all the equity volume on the Street on any given day. Yes you read that correctly: 50–70 percent. Brokers bank hundreds of millions on firms like ours each month in trading commissions. This money flows to the coffers of clearing firms that take no risk but enjoy the rewards of the traders' hard work. The government also makes out nicely, raking in hundreds of millions annually in SEC taxes. (I'm not complaining, just offering facts.)

To offer some background, proprietary trading exploded during the Internet Boom. When I first began trading in the late 1990s, there were only a few firms hiring recent graduates to trade. There are no exact numbers on how many proprietary trading firms exist today, but the general consensus is more than a hundred and less than three hundred. Obviously this number is now much more than the handful that existed when I first began.

Unlike most firms on the Street, proprietary firms have no clients. We do not sell a product or help someone else sell a product. We do not take other people's money and speculate it on their behalf. A proprietary trader's after-hours schedule is not booked with dinners at New York City steakhouses like Sparks, drinks at the trendy Buddakan, or Rangers games (the Knicks are presently unwatchable). We don't need to schmooze.

We eat what we kill. Our profits are generated solely from the bets we make on our traders. When we are wrong, we lose our money. When we are right—and let me say that is a lot more fun—we keep a percentage of our winnings.

## **WELCOME TO THE WORLD OF PROPRIETARY TRADING**

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Proprietary trading (or “prop trading” for short) is done for the benefit of the company’s partners and employees only, not for the benefit of any client. The firm is the client. A prop firm’s traders actively speculate on stocks, bonds, options, commodities, derivatives, or other financial instruments with its own capital as opposed to customers’ money.

There is no money made on insider tips at the legitimate prop firms. I wouldn’t know an insider unless he walked onto my trading floor and announced, “Hey I am an insider. Get long BNI, Buffett is about to buy a stake in the company.” My news comes mainly from Internet sites like [briefing.com](http://briefing.com) and [Bloomberg.com](http://Bloomberg.com)—sites the whole world can access. Some proprietary firms have an interest in obtaining private research from institutional banks like Goldman Sachs and they can pay for access to it. We have access to some of this data but it does not make a difference. At my firm, SMB Capital, only the floor manager has a phone (his mom calls a lot). We depend on our trading talent. We eat what we kill. I wouldn’t have it any other way.

There are some months when a prop trader works 50 hours a week and takes home no money. Heck, there are some months when a trader works even harder and loses money. I spent 2002 unable to make a dime. On the contrary, there have been days that a prop trader is up over \$10k by 9:35 AM. He punches a few keys, the stock does what he thinks it will do, and he books these outsized profits faster than most drink a cup of coffee. In fact, there have been some mornings (Black Friday 1999, for example, when I sauntered onto my trading floor, turned on my computer screens, and saw that my account was up over 50k.) Now that is the way to start your morning! This is not one of those jobs where there are guaranteed contracts with a biweekly check that has the same numbers sprawled across the pay stub.

Many of the brightest of the bright leave our industry humbled (perhaps bitter?) by their inability to master the game. The smart ones figure out how to parlay their recent trading education into steady finance jobs. Juxtapose that with prop traders who make seven figures every year walking around in jeans and a t-shirt, sitting right next to overdressed bankers

every morning on a downtown subway. I know it sounds unfair. But remember . . . in prop trading, *we* are the client. Would you dress up in a suit to impress yourself?

There is a very real chance that the uber bright-and-talented get sent home packing. It does not do anyone any good pretending to be a prop trader. This is just a lose/lose situation. The would-be trader loses by doing something he wasn't meant to do, and the firm loses time and capital (though other market players may wish for these suckers to stay, like dead money at a poker table). The market demands that a trader follows all of her rules, every day, and every moment. Many just cannot thrive in this unbending universe.

At a proprietary trading firm, the trader makes all of the decisions. Unlike most jobs, there is no supervisor or partner reviewing every decision before it's made. Success, for better or worse, is totally self-dependent. You determine whether a stock is more likely to go up or down and how much capital to risk. If you are correct, then the firm and you make money. Whether a trade works out or not, the results are plastered on a huge scoreboard both on your computer screen and on shared monitors, kind of like standings in the sports pages. Accountability and performance are brutally transparent.

Prop traders are not trying to beat VWAP (Volume-Weighted Average Price, or average intraday price of the stock) or fill orders for some client. For a proprietary trader, beating VWAP is about as difficult as it is for LeBron to put up 30. You are not entering orders as dictated by a portfolio manager, PM, or hedge fund manager. This is hands-on-the-wheel trading—you determine the markets and stocks to trade, the size of the trade, and the entry and exit points. Your future depends upon one thing: *your* trading ability.

If you're just starting out in prop trading, know that very soon you will be given a trading account. You'll probably be asked to complete your firm's training program first, and set some computer keys to buy and sell (hot keys), but then you're off! You won't run errands like an intern might (in which case you are on call at all hours) and you won't fill orders in the Asian markets at 2 AM. A good training program will provide critical feedback concerning your trading but *your* judgment combined with *your* trading skills will determine your future.

At a hedge fund or big bank, most would-be superstars sit on the bench for a few years before being given responsibility with live capital. And oftentimes, one cannot get a job at a hedge fund without having worked at a big bank first. At SMB Capital, traders start with live ammo on Day 26.

Unlike in years past, when "trial by fire" was the preferred form of mentorship, today's better proprietary trading firms have intensive training programs. A firm's partners invest a tremendous amount of capital, time, and

teaching to make sure their trainees succeed. If a trader is not successful, the firm has invested a great deal of time, energy, and capital with almost no benefit. Thus, nothing less than an outstanding training program is in the proprietary trading firm's best interest.

Here are the best parts: compensation is practically unlimited, there are no office politics, and no subjective end-of-year performance reviews to determine a promotion or a raise or give constructive feedback like "you need to start asking for more responsibility." Traders take stock of their performance every single day, calculating profits to the cent in real time, and taking home a percentage of the spoils. The only haggling for a "raise" comes in the form of top producers requesting to take home a higher percentage. And at some firms, the partners will invite their best young talent to join them, just like in the old days of the Wall Street investment banking partnerships. Transparency, accountability, and instant feedback . . . where else in the corporate world can you get that?

OK, here's another "best part" of prop trading. Every day is new. Pushing papers around and doing the "same nonsense different day" is the antithesis of our job. As an example, here is how I spent Black Friday of 2009, the day after Thanksgiving, a day I was supposed to spend relaxing, watching an action movie, and eating leftovers: I awoke at 5:15 AM in Albany, New York, and prepared to take a borrowed car to the Amtrak station, then to the subway, then to my office (door to door it took me just under four hours). I was the only one awake on Amtrak from Albany to Penn Station as I was preparing for the day's Open, trying to communicate with my partner and co-founder Steve Spencer, rip through charts, and find patterns from overseas trading that might give us an edge.

Despite my having given the firm the day off, Steve and I contacted all of our traders on the night before because of the news of Dubai defaulting on billions of its debts. (Steve is my business partner, but he's also my best friend since age six.) We reached some of the traders, but not all. We spread word to the StockTwits community, the largest social media finance network, that this Black Friday was not a session to miss. SPY was opening down huge. We might bounce, we might tank, but whatever happens could offer great opportunity. Opportunity is what sustains intraday traders (though one of our traders subsists on Burger King and candy). As I reflected on a Thanksgiving Day—stuffed stomach, I was hard pressed to remember a day that offered more potential intraday trading opportunity than this Black Friday.

As a trader, one never knows when he is going to walk into a market that rains money. Black Friday 2009 could have been that day. I would not risk missing it. So I woke up early, sacrificed time with my family and a day of recharging, and started my travails.

I patched into our firm morning meeting, which was broadcast to the StockTwits community, via a crappy \$300 netbook from a spotty wireless region. But I saw and heard Steve from my reclined seat on Amtrak offering me a game plan for this Open. I could have never done this “in the old days.” What a super job by Steve and all who helped him prepare for his show running down all the key levels to watch before the Open. But then he said something that mattered most of all. Steve introduced the idea of market psychology.

The news before the Open was not good. Asia had digested the Dubai news and showed signs of food poisoning. The Asian markets got hammered and our markets were poised to open supremely weak. But Steve reminded all of us that market psychology mattered most. The market had shrugged off every piece of negative news since SPY traded at 70 just nine months before. The pattern to “buy the dips” had rewarded traders all during 2009. Steve counseled that if SPY held above 109.10 then this would be a signal that Dubai was just another piece of news the market would likely shrug off. It did.

As I left my office building in downtown Manhattan, I thought “Why did the market have to close early on this Black Friday? Can we fast-forward to Monday?” I just wanted to trade. I felt like Randolph and Mortimer Duke in the classic movie *Trading Places*, yelling in the middle of the trading floor “Turn those machines back on!” The only difference of course was I had just made money, not gotten a margin call for \$394 million.

Now if prop firms are essentially their own client, where is the competition? Trust me, there’s plenty of that. The market only has so much volume to go around, and every day is like a boxing match, beating all big banks, hedge funds, and automated programs to the punch.

So who are these people? Most were former Division I athletes or Ivy League math whizzes. Some sit around conference tables sipping bottled water, admiring the cufflinks on their French shirts, and stretching their toes in Gucci loafers while enjoying Central Park views from the window. (Not to be outclassed, as one can see the Statute of Liberty from some of my office’s windows). Many have more money to play with than we do, and can push us around, not to mention more brain power, experience, and “research” information. They work at firms with names one would easily recognize. NBA superstar Kobe Bryant is known to fans simply as “Kobe” while his worthy counterpart LeBron James is simply “LeBron.” Similarly, fans of Wall Street might recognize my competitors with one name as well.

Welcome to my world. Welcome inside the highly competitive world of proprietary trading.

Unlike a big bank that is funded by large shareholders and cheap overnight lending, or a hedge fund backed by wealthy investors and

institutions, a proprietary trading firm is generally funded with capital from a few partners like Steve and me. In most cases, prop firm capital is deficient to their better-known Wall Street peers. Certain firms concentrate on trading options and others, arbitrage plays. Some hold for longer time periods. Others, like ours, concentrate on trading US equities intraday. And we seek to do this better than anyone else. We employ our proprietary trading strategies with our money against the rest of the Street.

Steve and I teach our traders to locate important intraday levels and trade off of these levels. We make sure our traders focus on stocks with fresh news (Stocks In Play), and we ask them to make trading decisions based on technical analysis, reading the tape, and intraday fundamentals. If we teach them poorly, then the downside for us personally is significant. It's our money, and our money only, after all. If we choose our traders poorly in the hiring process, then the economic cost is painful. If our firm runs out of money, then we go out of business. And the government will not be there to bail us out, though I secretly like to think we are "Too Small to Fail."

The biggest reward of this job is the challenge to become an elite performer. I seek every day to improve, and I've been at this awhile. I do my best to master the psychology of trading. Traders learn more about themselves in a year of trading than many learn in their entire adult lives. The challenge is so intense it cannot help but force one to find the very best inside of him or her. Embracing the life of an elite performer eventually spills over to every facet of life like friend, brother, and son.

Contrary to what you might think, a prop firm should not be a cult of traders who worship at the altar of its successful firm leader. SMB Capital is not the Mike Bellafiore or Steve Spencer cult; as leaders, we don't purport to be all knowing. We do not have all the answers. Guess how I know that?

I have learned more collectively from the traders I have worked with and trained than I have ever taught anyone. At the time of the publishing of this book, there are over 60 professional traders under my wing, and I am always looking for our next star. Firms exist because of their talented traders. There would be no prop firms, no SMB Capital, certainly not this book, without the traders.

Unlike traditional brick and mortar companies, where things like property, plant, and equipment sit on the balance sheet, the assets of a Wall Street firm walk out the door every night. Steve and I often joke that we hope to build a firm where the worst traders are us. Now that would be some firm!

Cultivating an environment of learning requires stars other than the partners. Having star traders whom new traders can emulate, with whom they can grab lunch or a drink or ask a question, fosters an environment of perpetual learning. And let's be clear: From a business perspective, star

traders carry the dozens of mediocre new traders until they are ready to produce.

But enough pontificating about corporate culture and human capital philosophy. Let's move on to my entourage (especially when I am buying lunch). The traders profiled in this chapter are damn good and getting better. You would be hard pressed to find any better in our space. Unlike industries where young talent is groomed to look, act, and dress in a monotonous way, prop traders really come in all shapes and sizes. That alone has kept things fresh throughout my career.

So let's get to this. These are all great guys, and their humorous anecdotes are sprinkled throughout the book to give you a courtside seat at our game, to show you what really goes on inside the prop trading arena. Here's their introduction.

These guys are good.

## **A FIRM'S GREATEST ASSET: ITS TRADERS**

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In this chapter, you'll meet Franchise, MoneyMaker, Dr. Momentum, GMan, Z\$, The Yipster, and JToma (we'll stick to nicknames for the book—all great traders should have one), and they truly represent all points on the spectrum. They differ physically, ethnically, and possess varying standout talents. Each serves as a lesson on the importance of being competitive, focus, getting better every day, processing information quickly, achieving consistency in trading, perseverance, or a willingness to keep learning despite the number of years on a desk. They possess the characteristics that the market has taught me are most important to become a consistently profitable trader.

### **Franchise: Good Traders are Competitive**

In the spring of 2007, I walked into the conference room at one of our old offices to interview a young man from the University of Connecticut, (my alma mater, yes!) with one of those names as ethnic as my own: let's call him Franchise. Instantly, all these boxes started being checked off in my head: our SMB recruiting matrix was no threat to Franchise!

Franchise was a former college athlete. Check. He had traded before. Check. Check. He had that firm handshake that said *I'm all business but still carry myself with humility*. Check, check, and check.

After a few questions, Franchise oozed elite performer—he understood he would not be good at anything unless he worked hard. I kept

thinking to myself, “To what exactly do I owe this privilege? I run a year-old fledgling prop trading firm, and this kid wants to work for me?”

I like to joke with one of our interns, Krysten (soon to be an SMB trader), that as much as I like Franchise personally, he is not exactly the type of person for whom you root. He is not an underdog. (We will meet Dr. Momentum later in this chapter.) Dr. Momentum you root for. Not Franchise.

Franchise was that kid whose father had to build an extension on the house just to store all his trophies. To other guys, he is the one your ex-girlfriend dumped you for, yet to whom you’d gladly defer. To women, Franchise is someone who broke your young heart, but in a nice way.

Did I mention his pedigree? He is 6’4”. He is a former Division 1 swimmer who trained to qualify for the 2004 Olympics. His grandfather is an Emmy-and Grammy-winning composer who wrote a musical that still plays on Broadway. He vacations with his family at their compound outside the U.S. He is handsome (I can say that, right?), smart, a natural leader, likable, and talented. I’m sorry, but guys like Franchise always get the girl, make tons of money, and succeed at whatever they do. Simply put, if there were a Wall Street trader draft, and SMB had the number one pick, I’d sign him to a contract a month before I was officially “on the clock.”

About 10 minutes into our initial conversation my inner voice shouted, “We need to find a way to make sure this kid does nothing else but trade with us.” As I will further discuss in Chapter 3, generally, I un-recruit candidates, but Franchise is the one interviewee whom I actually tried to close. Maybe it was the UConn connection. But somehow we persuaded him. What a find!

There is not a single trader on our desk, including myself, including Steve, including GMan (you’ll meet him, too), who is as competitive as Franchise. Not one. In fact, there isn’t even a close second. Here’s why.

Franchise had a nice run of \$1,500–\$2,000 days during a period when most on our desk were struggling. Remember, we employ a conservative trading strategy and he was still just beginning. During this run, he asked to talk with me.

**Bella:** What’s up?

**Franchise:** I feel like I cannot get over this 1,500–2k hump. I just don’t know how to do it.

These words on their face might seem innocuous. However, his face showed physical pain. His body language communicated disgust in his perceived underperformance. His demeanor shouted that he was ready to do whatever he needed to find the next gear for his trading. He was like a dog



that had just broken his leg looking up at you to relieve his pain. And he was doing well!

Being the best of the best on the desk was not a concern to Franchise. The guys on desk were respectfully all unworthy of comparison as far as he was concerned. He was competing against the market. His goal was to tame this powerful beast. Perhaps it was the naïveté of market youth. No one trader is bigger than the market. But this conversation summarized his thirst for excellence.

First, I offered him some perspective. He was actually doing very well, and I made an argument that supported this conclusion. But then I recommended Franchise work on three short-term goals to improve his trading: (1) Enough with the trading “On Tilt”; (2) Improve your position sizing; (3) Refine your trading on the Open. We could sit in my office all day talking about these weaknesses, but that wouldn’t help him improve. So now he had his tasks, and it was up to him to improve.

Franchise now had work to do. There were new goals to focus on. There was a path to get better. This new challenge was like the gift of a first bicycle to a young child. He couldn’t wait to leave my office, rid himself of my now useless banter, and get to work.

While most enter trading in Hippocratic Oath mode (For doctors: “First, do no harm,” for traders: “First, don’t blow up.”), Franchise was wacking through the jungle with a thick enough skin to ignore the peripheral prickly brush and swinging a machete to take out every life form in his path, looking for the prize like Indiana Jones. Making money was a given. Being excellent was inevitable in his mind. He continued working, experimenting, studying, pushing, learning until he recognized his potential.

Specifically what did Franchise do? He kept detailed notes in his trading journal on the weaknesses he needed to improve. He watched video of his trading on his laptop as he commuted home. He pulled me aside asking thoughtful trading questions, never wasting a second of my time. He thought about his trading after the Close. He kept up well with the SMB fundamental of sharing ideas with the desk. Slowly but surely, he was improving.

The result? Those middling 1,500–2k days soon became 3–4k days.

I am not sure what the future will hold for Franchise. Nothing would make me happier than for him to run his own desk with us. But I suspect that one day he will leave to go work at a hedge fund (perhaps his own) and trade much bigger positions. If that is what he wants, I will be the first person to thank him for working with us. And if I’ve made enough for myself by the time he’s ready to do that, I’ll gladly seed him Julian Robertson-style. But I am interested. I really cannot wait to watch his future unfold. Franchise’s story demonstrates how competitiveness, harnessed correctly, can provide the energy the developing trader needs to improve.

**TRADERS ASK: “WHY CAN’T I JUST MAKE MONEY?”**

An experienced trader, GM, e-mailed me in the summer of 2008 as the Angels were pounding the Yankees again. GM had some very kind words for my previous blog, which I appreciated and made the latest Yankees loss more palatable. In return, I would like to spend some time offering some guidance on his recent struggles. They should not continue.

Sometimes, just like GM, I feel that I just can’t make money. And when you are getting beaten up consistently, it is human nature to viscerally conclude that the market is just too hard for you. But a good trader does not succumb to this very human yet initial overreaction. A good trader assumes the mentality that there is always an escape.

There is a wonderful movie, *Red Belt*, written by one of our great playwrights, David Mamet. The protagonist, Mike Terry, played by Chiwetel Ejiofor, is a mixed-martial arts instructor, and the film opens with Mike teaching his best student. This student is in a chokehold that he cannot escape. And Mike is preaching, “There is always an escape. There is no situation you could not escape from. You know the escape.” There is always an adjustment that I can make to improve my trading results for a stock. I watch my trading videos to discover what I was doing wrong, my escape. Almost always, I lose money because of my own human error. I fix my errors and move forward. When I do my trading, results immediately improve.

But to improve your results you must review your work and eliminate your mistakes. This experienced trader had conquered the market the past five years. What percent of traders do you think are capable of making that statement? This is undoubtedly enough data to conclude that GM is a very good trader. GM, sit down and identify your mistakes, eliminate them, and you will go right back to making money. You do not slip from trading successfully for five consecutive years to being unable to trade profitably anymore. That is, unless you get in your own way. But your skills are there. Now it’s time for you to compete.

I talk about competing a lot to our new traders on our desk. You don’t compete by saying, “I really want to see better results.” You compete by taking the actions necessary to make your trading more profitable. The reason you are losing money is not because you are a lousy trader. That is not supported by the past five years of trading data. You are struggling because you are making human errors. Your present data is not relevant because it is blanketed with uncommon trading errors. Eliminate these mistakes and your results will mirror your previous years. Make a list of the trades that work best for you. Visualize making successful trades. Then make One Good Trade and then One Good Trade and then One Good Trade.

All good traders have had thoughts that they’re at the end, they’ll never make money again, or that the market is just too hard. I have sent these very

e-mails. We are not Buddhist monks, so these counterproductive thoughts occur. But the good trader moves forward. The good trader finds an escape. The good trader through positive self-talk reminds himself of his past successes and concentrates on the trades that are working presently for him. The good trader competes.

Best of luck with your trading, GM!

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Let's meet another talented star trader with an uber-profitable combination of passion and pure, unadulterated trading talent.

### **MoneyMaker: Stay Focused**

"Failing is not an option for me," said MoneyMaker during his interview with me. I didn't make much of this during my first meeting with him because, honestly, a lot of candidates say stuff like this in their first interview. But for some reason I remember in great detail MoneyMaker saying this to me. And recently I asked him if he remembered this. He didn't. But he explained, "Trading is what I want to do, Bella. So failing is not an option." Oh.

Well MoneyMaker, many of us want to play for the New York Yankees, but that isn't happening. So what was it about MoneyMaker wanting to succeed that enabled him to actually succeed? His hunger was genuine. Others claim to love trading but are not willing to pay the price. Dr. Brett Steenbarger wrote on TraderFeed, his psychology trading blog, that many claim to have a passion for trading but few sustain the energy to achieve their goals. And others like MoneyMaker did not have the advantage of trading talent. So what was it with this MoneyMaker?

Ask MoneyMaker what a friend would notice if he visits our trading desk and he answers: "That I just sit in front of my computer the whole day. I could sit all day on my desk and wait for setups to happen to me and I don't get bored."

During a slow August day in 2009, when many traders had convinced themselves that the markets were awful, there was MoneyMaker glued to his seat. He was having a fantastic month. He had put up over \$13k the day before. There really was not much going on. The housing number was about to hit in a few minutes. MoneyMaker was watching all the ticks in FAS and FAZ. The number hit, SPY spiked above 102, an important resistance level, and MoneyMaker loaded up. FAZ went up a point and slowed, then another point and slowed, then pulled back until it made another up-move. In 15 minutes MoneyMaker made \$5k, on a day that many were not on their desk, checking out [www.missuniverse.com](http://www.missuniverse.com), or securing tee times. Not MoneyMaker. He was there to trade. He was ready to pounce. And he crushed a simple trading setup.

Like the Franchise, MoneyMaker is a former athlete. In fact, he is a former professional golfer. And I often chuckle at something MoneyMaker said about his ability to focus that plays an integral role in his success as a trader. MoneyMaker explained, "I am used to hitting balls in hundred-degree weather for hours, so sitting in air conditioning in front of my computer for the day is not difficult for me." Makes sense, I guess.

During a one-on-one discussion, I complimented, "I am just amazed at your ability to focus. It is just remarkable." He looked at me quizzically and clarified, "Bella, it is not remarkable. I just love trading. It is not difficult for me to stare at my screens because I love trading."

His focus is not natural. He has developed this skill as a former professional athlete, hitting hundreds of balls, for hours, in hundred-degree weather and worse humidity. A round of golf can last five hours and one must focus on each individual shot. This fact is not lost on him or me.

MoneyMaker made money from Day One (hence the nickname). His first month trading with SMB he received a bonus check. I can count on one hand how many traders out of a hundred do this from Day One. And he has made money in everything, every sector, he traded. First it was the oil stocks. Cha ching! Then it was the financials. Then came the ETFs. Then longer-term trades. MoneyMaker could always just play. He has a "feel" for stocks. He has trading talent.

But MoneyMaker keeps working at his game. A good day used to be \$1k, and then it was \$3k, and now it's \$10k and counting. And again, he is positive 80 percent of all trading days. A horrible day for him might be negative \$1k. He has had patches where he has struggled. He traded poorly in June 2009 but then rebounded later that summer for a huge August, a month when most of the Street is on vacation.

MoneyMaker has an uncanny feel for the order flow. As much as I would like to take credit for his tape reading skills, he just got it much faster than most. When talent melds with passion, then you are special. And MoneyMaker is a special trader.

On deck is the most fascinating person ever to walk the halls of SMB Capital. He is Dr. Momentum, the one we all root for.

## **Dr. Momentum: Be a Sponge**

Dr. Momentum started as our first intern. He took a job as an accountant at a Big Four accounting firm but then decided, "You know, this is really not for me. I would rather come back (to SMB). This environment is so much more conducive to growth and learning." Like GMan, the corporate life was not for him. It was like some guardian trading angel was watching over us blessing us with Dr. Momentum.

Dr. Momentum is the smartest person I have ever trained. Dr. Momentum looks and is young, 24. One of his endearing quirks is that he talks incessantly. Well, save the one time Franchise warned, "If you do not stop talking, I am going to come over there and break your (expletive deleted) neck." From one of our traders: "(Dr. Momentum) talks constantly all day long. Seriously, he never stops." This would be annoying from anyone else save Dr. Momentum. Why? Because he is Dr. Momentum.

We all know someone like Dr. Momentum. Brilliant yet modest. Absorbs new information twice as fast as you and remembers twice as much. And someone we all root for. Dr. Momentum is a red-head Jewish kid from Brooklyn, who stands 5'7" (maybe), and yaps all the time with a smile on his face.

I received an e-mail from the location scout for *Wall Street 2*, directed by Oliver Stone. They were looking for a trading floor to shoot some scenes. I offered a few trading floors as ideas (such as the one eventually chosen) and moved on with my day. But if they were to look for more than a trading floor, if they were to scout for traders, Dr. Momentum would not be cast. In fact, anyone who suggested Dr. Momentum for a casting call would be derided.

Why?

Because Dr. Momentum is the anti-Franchise. Dr. Momentum looks like your accountant. He's like that Paul Pfeiffer kid from *The Wonder Years* sitcom. Dr. Momentum sounds like a crazy cousin on speed. Tall, muscular, athletic, he is not. He did not graduate from an Ivy League school only because his allergies are so bad he sought refuge in Colorado. (Remember Paul Pfeiffer's allergies?) Cool and restrained are not what comes to mind. Dr. Momentum will land a girl here and there but I assure you this is all through sheer genius and perhaps some good fortune.

Every conversation is a party to Dr. Momentum, with him as the host. His brain can't stop processing. When I teach he absorbs every piece of wisdom (assuming I share wisdom) that I offer. From Dr. Momentum, "I only have to hear something once and I get it. Same thing in when I would read a textbook. . . . I would just read, go bust out the chapter, boom, and I would be done. I won't have to take any notes. I won't have to highlight anything. I won't even have to review and then go back. I would just run through the chapter, and then it would be done. It would be in my brain." Dr. Momentum is a sponge.

Dr. Steenbarger, expert in trading psychology and prominent author, in a presentation he gave to Kershner Trading Group, commented that a good trader is a combination of conscientiousness and risk taker. You must get your work done so you can identify excellent risk/reward setups but then you must also be willing to put on risk. Dr. Momentum is our poster child for this combination.

When we interview a candidate I ask whether they enjoy new restaurants and travel. Those that travel and sample new restaurants tend to be willing to take risks. Where does Dr. Momentum travel, you ask? Dr. Momentum spent three weeks in Japan, Hong Kong, and China during his vacation in 2009. Before he started with us, he spent a month in Nicaragua learning Spanish and absorbing the culture. From Dr. Momentum, “Most of my friends from Brooklyn are either immigrants or they are sons and daughters of immigrants and when I spend time with their families, whatever accent they have, I would pick up on their accent, and start speaking their accent. When I was in China, I was speaking with a kind of Chinese accent for the two weeks I was there. I think I just like to pick up on things and I absorb them, and they become like part of me very quickly.” Dr. Momentum is not afraid to jump into a new stock offering fresh experiences and exceptional opportunity. Given his travels, this fits his personality.

Dr. Momentum is the best young momentum trader on the desk. To trade momentum, you must make lightning-quick decisions. And he can. Back in the fall of 2008, Dr. Momentum crushed Goldman Sachs (GS) short, then flipped and crushed it long, then re-shortened and caught the next down-move, etc. He is not physically imposing like Franchise, but has the fleetest hands around.

He has no fear. I know that fall of 2008 offered many excellent trading opportunities. But it takes guts to trade GS with size when it is moving 70 points intraday. What if you catch the wrong side of the trade? That is a quick \$5k out of your pocket. That will make your red hair stand on end.

But he didn't. And he just crushed that fall of 2008 market. In fact, he posted the best results of almost all on the desk after just his first few months of trading. That's impressive! That's because of his extraordinary information-processing ability. He saw the longs and got long. He saw the shorts and hit the bids. He scratched his poor trades when necessary. The young man from Brooklyn, Dr. Momentum, put on a trading master clinic.

Intriguingly enough, Dr. Momentum's best day almost never happened. He managed to score a date with a lovely young lady from the Upper West Side of Manhattan and took her out on the town. That day had been his best, putting up \$20k. And according to Dr. Momentum, the day only got better: “Bella, it was a great date!” Dr. Momentum stumbled in just before our morning meeting looking like sleep had not been on the menu the previous night. He was also wearing the very same shirt from the day before and a huge smirk on his face. *Look at you, Dr. Momentum, getting a little something something last night.* But he made it. And this was a good thing for his bank account. On this day, he bested his previous best day by over 50 percent.