

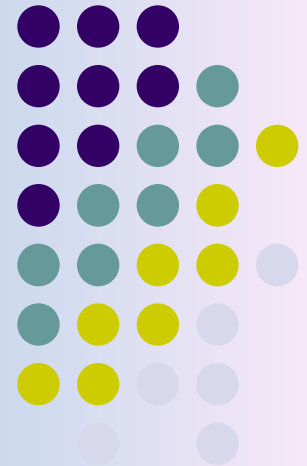
# Jake Bernstein

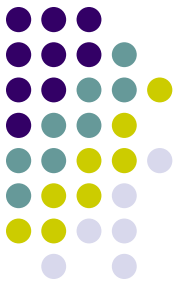
Trading Problem Solutions

**What we will do and why  
An Overview of Trading Problems  
What Limits Success**

**Thursday 5 April 2012  
Session 1**

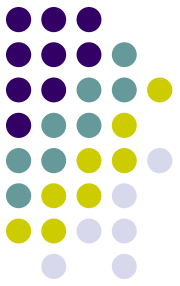
© 2012 by Jake Bernstein  
[www.trade-futures.com](http://www.trade-futures.com)  
[jake@trade-futures.com](mailto:jake@trade-futures.com)  
800-678-5253 \* 831-430-0600



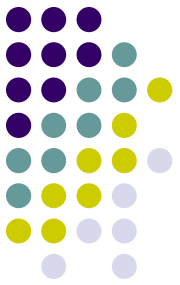


- A loss never bothers me after I take it. I forget it overnight. But being wrong - not taking the loss - that is what does damage to the pocketbook and to the soul.  
Jesse Livermore

# My trading problem(s) and cures

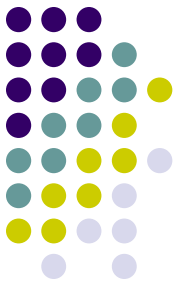


- Micromanaging
- Taking profits too quickly
- Too much focus on accuracy vs profits
- Over thinking
- Not doing homework
- Trying to do too much
- Watching too closely



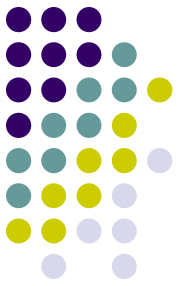
# Why this Webinar?

- What I have seen in 43 years of trading
- What causes losing behaviors?
- Why should I care
- Debunking popular myths
- The complicated answers
- The simple answers
- The BEST answers
- Definitions

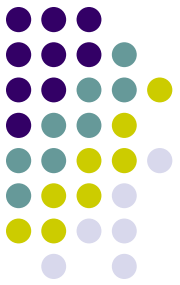


- If all you have is a hammer, everything looks like a nail.  
Bernard Baruch

# Fear vs greed: incomplete

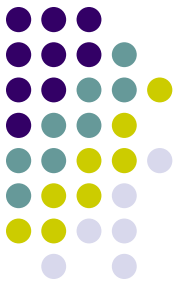


- These are not the two greatest enemies of success...
- HOPE
- CARING



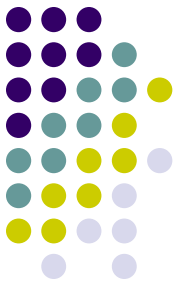
- Of course, if a man is both wise and lucky, he will not make the same mistake twice. But he will make any one of the ten thousand brothers or cousins of the original. The mistake family is so large that there is always one of them around when you want to see what you can do in the fool-play line. (p. 119)

# The books and courses are wrong and misguided!



- Why?
- Do you need a psychiatrist?
- What makes traders win?
- What makes traders lose?
- Qualities (to be discussed)
- The BIG paradox
- The more you care the less you make the more you lose
- Transference and counter transference
- The movie: A Dangerous Method

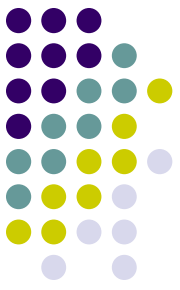




## 2 types of losses

- The “smart” loss
- The “stupid” loss
- How to know
- **MOST LOSSES are STUPID LOSSES**

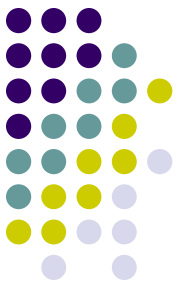
# A few facts



- Most traders are not achieving their true ability and success
- Most traders have several problems
- Many traders have had these problems for so long that they don't even know what they are
- Problems become automatic (reflexive)
- What do I mean by that? Examples
- Most trading problems are easy to solve
- We will focus on solutions and symptoms



- **On the importance of selective speculation:** There is a time for all things, but I didn't know it. And that is precisely what beats so many men in Wall Street who are very far from being in the main sucker class. There is a plain fool, who does all the wrong things everywhere, but there is the Wall Street fool, who thinks that he must trade all the time. No (person) can always have adequate reasons for buying or selling stocks daily - or sufficient knowledge to make his play an intelligent play. (p.21)



# Types of trading problems

- Before we can find solutions we need to CLEARLY identify problems
- To identify problems we need to categorize them
- Here are my categories and their breakdowns
  - 1) Problems of omission
  - 2) Problems of commission
  - 3) Problems of ignorance

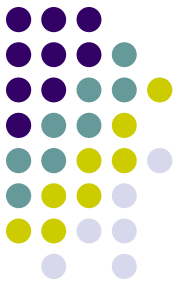
We will address all 3

# Examples of each area



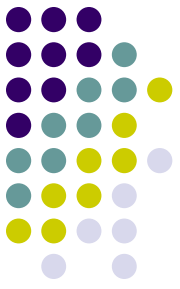
- 1) Problems of omission: forgetting to place an order, not doing your homework, skipping a step in your sequence
- 2) Problems of commission: canceling a stop as it is approached, buying or selling on feelings instead of facts or methods, adding to losing positions, taking too much \$ risk on a trade
- 3) Problems of ignorance: not knowing when a market has closed, not knowing order types, not understanding tick values

**SOLUTIONS** will be given

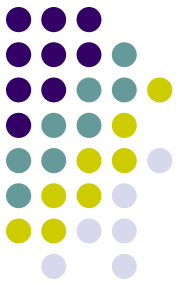


- I never buy anything unless I can fill out on a piece of paper my reasons. I may be wrong, but I would know the answer to that. “I’m paying \$32 billion today for the Coca Cola Company because ...” If you can’t answer that question, you shouldn’t buy it. If you can answer that question, and you do it a few times, you’ll make a lot of money.” – Warren Buffet

# Simple diagnostic procedures

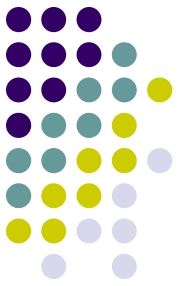


- Are you making money?
- How much time do you spend on trading daily?
- Do you watch prices all day and is it working?
- If you ARE making money what is your hourly “salary”?  
Could you make as much working at a fast food place?
- Are you paying for your cost of doing business?
- If you ARE making money is it worthwhile?
- Is your system working but not you?
- Are you using a system?
- Are the rules 100% clear and objective
- Proprietary vs system trading



- **On mistakes and wisdom:** If a man didn't make mistakes he'd own the world in a month. But if he didn't profit by his mistakes he wouldn't own a blessed thing. (p. 97)





# Discipline issues

- What is discipline?
- Where does it come from?
- How does it develop?
- Confidence vs discipline
- Confidence- discipline – system - method

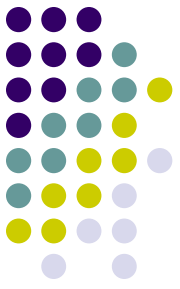
**Be Careful what you tell yourself...You may start believing it**  
**Be careful what others tell youYou may start believing it...**



- Market myths perpetuate
- Common myths...
  - 1) Small stop losses will protect you
  - 2) The more you trade the more you make
  - 3) “I need to make \$xxxxxx a day”
  - 4) Options are the best way to trade
  - 5) My broker is there to help me...are you sure?
  - 6) A bigger and faster computer will help you make more money
  - 7) Day trading S&P is the best game in town
  - 8) The FOREX market is the best market for profitable trading
  - 9) The myth of the 200 day moving average
  - 10) Follow what the professional traders are doing and you’ll succeed
  - 11) The REVERSAL and KEY REVERSAL are profitable signals
  - 12) Spread trading is virtually risk free

© 2012 by Jake Bernstein

[www.trade-futures.com](http://www.trade-futures.com) 800-678-5253 \* 831-430-0600



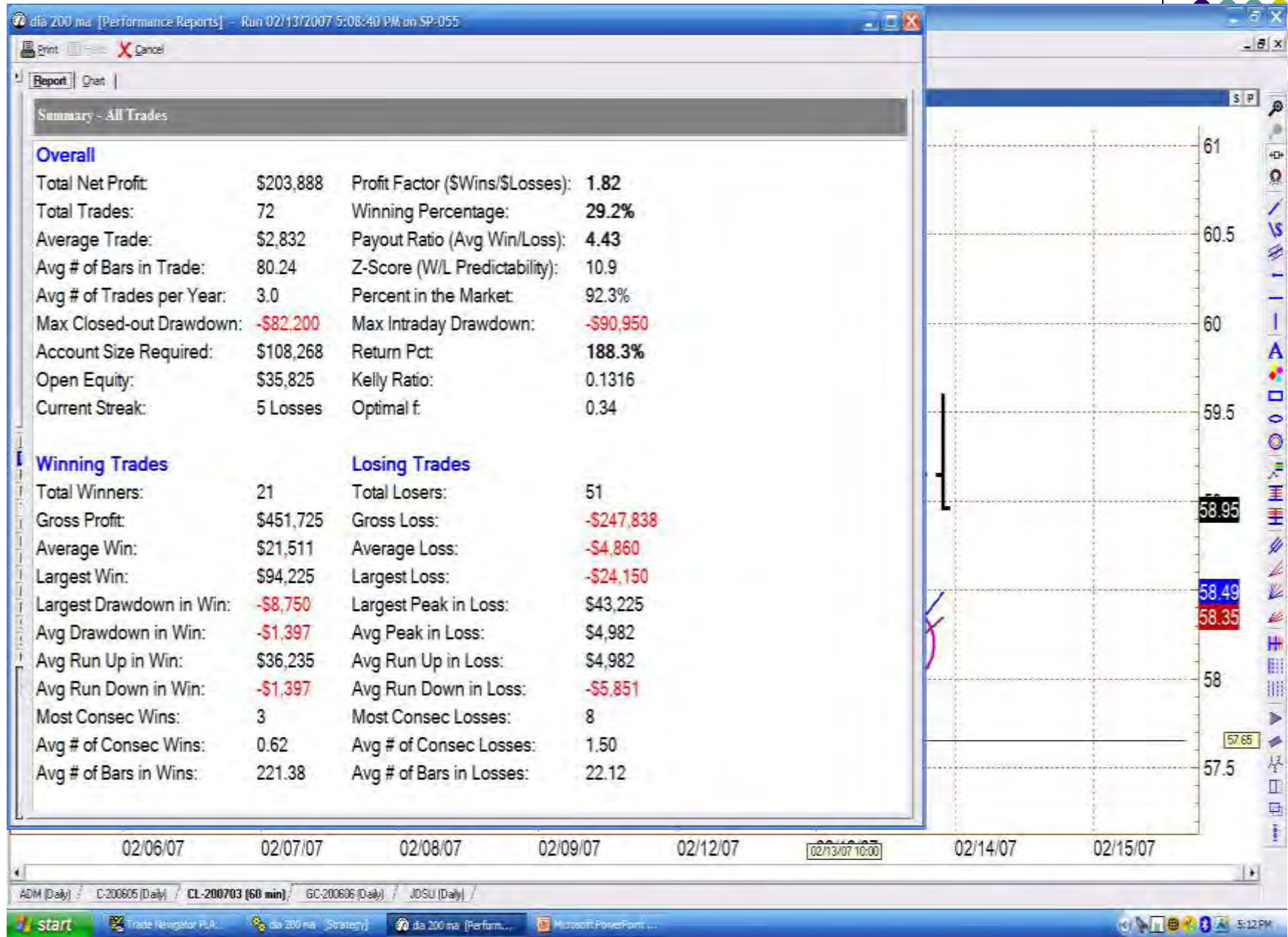
# Most traders believe what they read and hear...but WHY?

- Many traders are uneducated
- They believe what the advertising says
- Do the futures exchanges do their part to educate traders?
- Futures trading: the “zero sum game”
- Who wants YOU TO WIN?
- Whose success depends on YOUR LOSSES?
- Traders are daily exposed to a constant stream of worthless opinions and worthless methods
- Traders listen to business television such as CNBC and Bloomberg and make their decisions on the news
- Traders are generally disorganized
- Traders have too much information

© 2012 by Jake Bernstein

[www.trade-futures.com](http://www.trade-futures.com) 800-678-5253 \* 831-430-0600

# Track Record 200 day MA in S&P



# 200 Day MA IBM



dia 200 ma [Performance Reports] - Run 02/13/2007 5:14:09 PM on IBM

Print | Cancel

Report | Chart

Summary - All Trades

### Overall

Total Net Profit:	-\$52,080	Profit Factor (\$Wins/\$Losses):	0.48
Total Trades:	44	Winning Percentage:	18.2%
Average Trade:	-\$1,184	Payout Ratio (Avg Win/Loss):	2.16
Avg # of Bars in Trade:	47.77	Z-Score (W/L Predictability):	7.5
Avg # of Trades per Year:	4.9	Percent in the Market:	86.1%
Max Closed-out Drawdown:	-\$79,550	Max Intraday Drawdown:	-\$79,675
Account Size Required:	\$79,675	Return Pct:	-65.4%
Open Equity:	\$8,020	Kelly Ratio:	-0.1977
Current Streak:	6 Losses	Optimal f:	-0.10

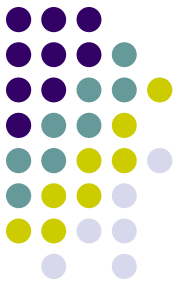
<h3>Winning Trades</h3>		<h3>Losing Trades</h3>	
Total Winners:	8	Total Losers:	36
Gross Profit:	\$47,895	Gross Loss:	-\$99,975
Average Win:	\$5,987	Average Loss:	-\$2,777
Largest Win:	\$27,470	Largest Loss:	-\$5,030
Largest Drawdown in Win:	-\$1,095	Largest Peak in Loss:	\$9,075
Avg Drawdown in Win:	-\$385	Avg Peak in Loss:	\$2,644
Avg Run Up in Win:	\$15,069	Avg Run Up in Loss:	\$2,644

02/06/07 02/07/07 02/08/07 02/09/07 02/12/07 02/13/07 02/14/07 02/15/07

ADM (Daily) C-200605 (Daily) CL-200703 (60 min) GC-200606 (Daily) JDSU (Daily)

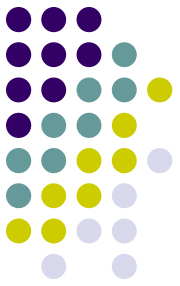
start Trade Navigator FLA dia 200 ma [Strategy] dia 200 ma [Perform...] dia 200 ma [Perform...] Microsoft PowerPoi...

5:14 PM



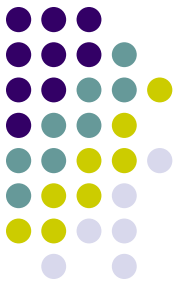
- The speculators' chief enemies are always boring from within. It is inseparable from human nature to hope and to fear. In speculation when a the market goes against you, you hope that every day will be the last day. It is absolutely wrong to gamble in stocks the way the average man does. (p. 130-131)

# The 21 DEADLY Mistakes



- 1) Lack of an objective profit maximizing strategy
- 2) Lack of organization
- 3) Listening to the news
- 4) Lack of an objective trading method
- 5) Too many indicators Too much “analysis”
- 6) Beginning with insufficient capital
- 7) Trading too many markets at once
- 8) Lack of diversification
- 9) Failure to understand order types
- 10) Careless but costly errors (examples)
- 11) Impulsive behavior (trades not based on methods)
- 12) Excessive day trading
- 13) Low delta options
- 14) Stop losses that are too small
- 15) Trading markets that are too risky (i.e. new traders trading natural gas)

# 21 DEADLY Mistakes (cont'd)



- 1) Lack of an objective profit maximizing strategy
- 2) Lack of organization
- 3) Listening to the news
- 4) Lack of an objective trading method
- 5) Too many indicators Too much “analysis”
- 6) Beginning with insufficient capital
- 7) Trading too many markets at once
- 8) Lack of diversification
- 9) Failure to understand order types
- 10) Careless but costly errors (examples)
- 11) Impulsive behavior (trades not based on methods)
- 12) Excessive day trading
- 13) Low delta options
- 14) Stop losses that are too small
- 15) Trading markets that are too risky (i.e. new traders trading natural gas)



# The 7 Winning Behaviors

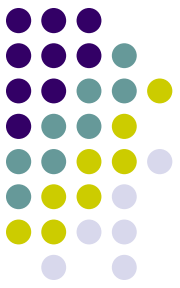


- 1) Use the Setup – Trigger – Follow Through market structure that uses a clear and concise profit maximizing strategy and get out of the “danger zone” as quickly as possible
- 2) Begin with sufficient capital (minimum) and commit only 50% of your capital to positions - hold 50% in reserve
- 3) Don't trade it if you can't test it – what constitutes an adequate test? Do you need to back test with a computer program?
- 4) Use totally objective rules or you WILL FAIL – you must NEVER interpret anything
- 5) Trade at least 3 unduplicated or uncorrelated markets but preferably as many as 15 uncorrelated or unduplicated markets (examples)
- 6) Trade multiple positions (units of three)
- 7) Begin trading a new method AFTER it has had at least three consecutive losing trades

© 2012 by Jake Bernstein

[www.trade-futures.com](http://www.trade-futures.com) 800-678-5253 \* 831-430-0600

# A few points



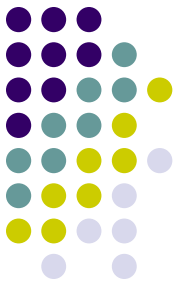
- Trading is not as easy as we have been led to believe but trading is not nearly as difficult as we have been led to believe
- Simple methods work best as long as they are valid and include a trigger and follow through method
- Trading multiple positions is BEST
- Adapt the “danger zone” concept
- Use 3-5 effective methods
- Don’t mix time frames (examples)
- I have not seen anyone consistently make money with methods that require analysis or interpretation – I suggest that you avoid them unless you’re psychic!

© 2012 by Jake Bernstein

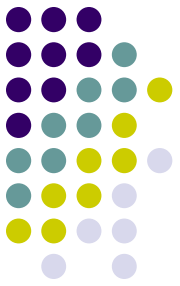
[www.trade-futures.com](http://www.trade-futures.com) 800-678-5253 \* 831-430-0600

# General “cures”

- *Errors of ignorance*
- Education
- Checklists
- Preparation
- Flow charts
- Broker website information
- Exchange websites
- Calendars
- Ask the broker
- Example:
  - <http://www.cmegroup.com/tools-information/holiday-calendar/index.html>



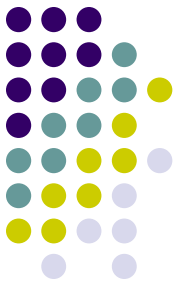
# General cures

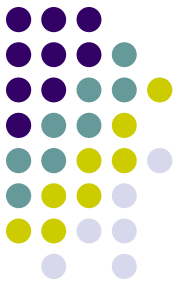


- ***Errors of commission***
- Structure (STF)
- Reality of assets
- Realistic risk assessment
- Confidence building exercises
- Paper trading: good or bad
- Procedure: clarification
- Begin with the easiest: i.e. Gap trade

# Send me your problems

- We will discuss them
- Send them to me
- Be anonymous if you like
- We will explore solutions





- Mentoring appointment interview
- <http://www.comtrade1.com/letter/>

I can be reached at 800-678-5253 or 831-430-0600

- Email me if you have questions:
- [jake@trade-futures.com](mailto:jake@trade-futures.com)
- Best of trading
- **Jake Bernstein**