

## **So you want to become a full time trader?**

Well you will need to be well advised, well armed and well stocked with the right equipment.

You will also need to be in the right environment.

You can get advised by reading as many articles like this as you can. The more information you can arm yourself with the better off you will be.

You will need a decent sized bank just as you would if you were starting any business. After all, if you are planning to have trading as your sole source of income you need to consider all of the outgoings of a normal business. Set up costs (computers, programs, software, etc,) running costs (electricity, broadband, telephone, mobile phone) maintenance, upgrading software, the list goes on. You then need to work out a "wage" for yourself and your trading partner if you choose to have one.

### **Income**

You need to work out how much per annum you wish to make so let's do some sums. Say you want an income for yourself of £26,000 per year. I chose that figure to make the sums clearer. You may well choose £35,000 or even £40,000 if you put in the hours required to make such a figure.

So at £26,000, you need to make at least £500 per week. Let's assume we trade 5 days a week with Monday and Tuesday off. To be professional, in my opinion, you must trade Saturday and Sunday as that is when most of the action happens.

To make £500 per week that is £100 per day. How many hours in a day? To most professionals, I would say 6 hours once you are settled in to a routine. To make £100 per day in 6 hours is an hourly rate of £16.66 or say £16.50 per hour. Just pause here and let's think about this amount.

Just to be clear, that is £16.50, six hours a day, five days a week. Sounds fairly reasonable and comfortable so far right? Well so far, we have had no losing trades. It is reasonable to assume Trader Superstar will be right 70% of the time when selecting trades. If he or she wasn't right that often, he or she (from now on I will use HE but I include all lady traders ok!) wouldn't be considered great. So let's assume Trader Average is right 50% of the time and Trader Novice is right 30% of the time.

We can also assume that having made the decision to go "Pro", all three of the above traders have a reasonable idea of what they are doing and so there would not be too many trader novices. However, we all have to start somewhere but I would hope by now, you have gone from novice to average and are making a steady

amount off your trading before you choose it as your full time income or you will be in for a rather sharp rude shock.

Let's get back to our £16.50 per hour. Most professional traders use UK horse racing as their bread and butter trading income. So if you are trader average and are right 50% of the time, you will be wrong 50% of the time. We can assume as a professional you have a very good grasp of stop losses, how to deploy them and at what range to set them.

So let's also set a small but reasonable target of wanting to make £20 per successful trade and cut our losses on an unsuccessful trade at £15.

So if we get one right and one wrong, we make £5 clear profit. We now know we need to make 6 – 8 trades per hour to reach our target. I do not think that is a reasonable figure and we will not survive long on those numbers. We need to do one or more of these three things.

- Increase our profit per successful trade or -
- Decrease our loss per trade average or -
- Increase our strike rate.

We can suffer those numbers as Trader Superstar because at 70% we will make £140 from 7 successful trades and lose £45 from three losses for a net result of £95.

That is almost our daily target right there. But we are not yet superstars.

Let's take a very quick look at what Adam Todd has achieved and how he did it.

On the Racingtraders website you can see where Adam turned £200 into £100,000 in three years. Let's break that down.

He traded a total of 821 days in three years for 756 winning days and 65 losing days, a win rate of 92%.

To make £100,000 in three years he did this.

- £33,333 per year.
- £640 per week.
- £128.20 per day (based on a five day week)
- £21.36 per hour (based on 6 hours a day)

Make sure you read the article on his website if you have not yet done so.

Adam came from a trading background and found it very easy to make money in the first year or two. Now, by his own admission, it is much harder. There are plenty of sharks out there circling, and when you put your cash into the market, the frenzy begins. You can see that our £16.50 per hour target is attainable but perhaps a little optimistic at the start. It is easier to raise your game when doing well with small

amounts than to have to cut back due to over commitment and heavy losses. Little and often is our mantra.

I will not get any deeper into that here because otherwise this article will become a book. It is just food for thought ok for you to consider. Work out how much you want to make per year, divide it by weeks, then days, then hours.

Then factor in that a lot of your trades will lose money!

I would aim for £10-£12 per hour to begin.

As a bank I suggest £3000 with another £3000 as back up.

Still want to be professional? Read on.

Once you are setup with a decent bank, all the gear, most importantly a VERY quiet place to work, free of all distractions (background noise like children, television other than a sports event or racing) you are ready to go. Remember in your new business that it has one major asset that it cannot succeed without. YOU. Make certain before you sit down for a trading session, you are well fed, showered and refreshed with a drink (non alcoholic) close by. Trading is thirsty work as tension can cause dryness of the mouth. I know this sounds childish but it is vital information. Make sure the room is adequately lit and your screen is not the only light in the room.

## **Tactics - What type of trader am I?**

### **Short Term Trader – Scalper.**

The best mindset to do this is to almost be robotic. Scalping requires hundreds of repetitive trades one after the other. Within seconds you will back at one price and lay the same horse one tick lower. For example, you back a horse @ 6.2 for £100. You then instantly lay it back @ 6.00 for £100. You have locked in £20 profit. Do that 6 times one after the other, bang, bang, bang. You now have £120 profit on that horse. Hit the hedge button (if using BetTrader) and you have £20 the field and a successful trade. That is scalping. In and out very fast, it is very repetitive but rewarding work. You will need intense focus for short periods on a regular basis. You must be able to apply the blinkers and then relax once the profit is locked in before looking at the next race. Cricketers and golfers will know what i mean. Focus on the ball, play it, relax and wait for the next one before focussing again.

### **Position Trader – General Price Movements.**

This is more your sports events type of trading. Certainly cricket is ideal for this, maybe football, golf, rugby, tennis matches. You are looking for signs of dominance or weakness and watching the prices move in and out accordingly and jumping on those price movements. I tend to be proactive rather than reactive in these markets as a price can only move two ways, up or down. If i wait until the market has decided which way, often the ship has sailed and you end up taking the worst price. Then something happens, it comes back in, you react again and take the worst price on the way down. See if you pre-empt the market and you are right, you can let your profits run as far up as you want them to go before getting out. And if the initial movement is against you, hopefully (being professional) you have a stop loss in to stop you out for minimal damage. If you are a reactive trader, you will always get the worst deal. Make a judgement, make a decision, back that decision and go with it. If it is wrong, take your medicine, stop it out and go again. Nobody is right every time, not even Adam Todd!

To do this type of trading you will need to have more knowledge of the sport or event you are trading on. Scalping requires no knowledge of the horse at all, but swing trading requires you to be able to "read" the action and make an educated judgement on what you are seeing on the screen. A word of warning. NEVER trade on a team with which you have an emotional attachment, it severely clouds your judgement. Seriously, don't do it. Bet a tenner on them and cheer them home and leave it at that.

### **Long Term Trader – The long haul.**

Not many people make all their money doing this as it can take a while to get paid. But the serious long term trader will open positions on markets up to a year before they occur. Some examples are, Next Prime Minister, 2009 Wimbledon winner, Premier League Winner, FA Cup winner, Champions League winner and so on. Or a market like Tiger Woods to win all four majors, you get the picture. Traders will take a large price on an event long into the future and then as the event gets closer, the price will either come in or the runner will have dropped out of the race. Obviously anyone that took a position on Tiger winning all four majors have already lost. Now here is a good long term market for you, Andy Murray to win Wimbledon? The odds would have to be about 500/1 right now, I figure he has about 10 shots at it. Federer will be around for 5 of those. Nadal will be around for 7 or 8. What do you think?

### **Decision Time.**

Once you have decided on your style and your budget and your set up, you are ready to go. There are a few more things you need to consider before you cut the cord and hit the ground running.

Play to your strengths. Do not get in over your head. Only commit small chunks of your bank to a trade so you can easily absorb any loss that comes in, there will be a few.

Do not over react. When something major happens in a market like a wicket falls in cricket or a goal is scored in football, the market always over reacts. Don't be a sheep and follow the crowd. They all start laying the team that surrendered the goal and the prices over corrects. Then the sharks jump in and take the over inflated price and it settles back down. Don't be a sheep, be a shark.

### **How to handle losses.**

People seem to become rabbits in headlights when a position goes badly. They believe it will turn around for them and they will get out then. They are far quicker to jump in and take a profit than jump in and cut a loss. It is well documented human behaviour. Trading must become unemotional or you will fail.

To prove this, try this test on a family member. I saw it on a website once and loved it so I kept it for future reference.

Offer someone a choice of £50 or, on the flip of a coin, the possibility of winning £100 or nothing. The odds are that the person will go for the sure thing.

Offer a choice of a sure loss of £50 or, on a flip of a coin, a loss of £100 or nothing. The person will probably take the coin toss.

In absolute expectancy terms the scenarios offered are exactly the same. There is no benefit to choose one over the other in the long term; yet people tend to go for the coin toss to save them from loss. People tend to view the possibility of recouping a loss as more important than the possibility of greater gain.

That is exactly why you constantly hear repeated, **DO NOT CHASE LOSSES.**

If you do a trade and win £50 you do not rush out and try and give it back so if you do a trade and lose £50 do not rush out and try and get it back that minute by doubling up. It is the surest way to the poorhouse known to man (apart from backing Andy Murray to win Wimbledon). You must accept failure and defeat with the same mindset. If you cannot do this, you will not become a professional trader.

No matter what you believe, you cannot have influence over uncontrollable events. So forget the fact that this guy usually does well, if he is having a bad day, get out and cop it sweet. Then start looking for the next trade. Do not stare blindly at the screen watching the bad result get worse by the second, just fix it and forget it. If you are a half decent trader you will be fine. Put it down to expenses. We all have them. New tyres for the car, £400 down the pan. Part of life.

### **Record Keeping.**

This is vital. Use an excel spreadsheet to record every bet you make or at the minimum a record of the day's trading. Personally I just keep a sheet with a column for every sport I trade on. Then down the left is a whole year and then each day an amount won or lost goes against that sport. It lets me know not only how well or badly I am doing overall but highlights which markets I am good at and where I may be falling short.

### **Practice**

Whilst it can never be said that paper trading is realistic, it is the closest thing we have to trading without putting in real money. So practice watching markets and graphs of those markets, see how they work, stick in pretend trades and get the hang of things first.

### **Money management.**

Everyone will have different views and opinions and techniques and styles but one factor is common to all of us. Money management. Without it we are like a one armed man in a row boat with three oars. Got all the good intentions but can't execute the plan.

Make sure you never expose more than 5% of your bank to a trade. You can certainly use all of the funds available to open a trade but you must close out that trade for good or bad and not leave more than 5% exposed or "at risk". An example would be to start with say £3000 which means we can expose £150 to an open position. What that means is this. Say we want to lay the draw in a football match. The price of the draw is 3.50. If we wanted to lay it for the whole bank we could lay £1200 at 3.50 to give us a liability of £3000. We would need to place a stop loss to back the draw at 3.15 for £1350 if it went wrong to give us a liability of £97.50 on the draw and £150 on either team winning, our maximum risk allowed under the 5% rule. You could of course get out earlier but you want to give yourself every chance

to turn the trade back in your favour. It can happen. So don't set your stop loss too close or you will get stopped out more often than not. If you set a stop loss at 3.4 you would be stopped out after about 3 minutes of the match, not enough time for a goal to be scored really. Here is the danger of not closing out a winning position. Felipe Massa was leading the Hungarian F1 Grand Prix and was trading at 1.01 when his engine blew with three laps to go and he was out. The lesson is that anyone who had backed him to win would have been sitting pretty at 1.01 and could have closed out the bet and greened up for minimal profit loss. But those greedy money grabbers who thought they would let the bet run paid the ultimate penalty and deserved what they got. I think you should always trade out of a winning position just to eliminate any risk to your bank. 9 times out of 10 you will get away with not trading out but the one time you get caught will cost you most of the profit from the other nine. Remember, little and often. If you are a decent trader and apply proper money management techniques, you will grow your bank much faster than a random trader. By eliminating losing trades you also save a bundle on commission.

A trader who has 10 small wins totalling £200 profit with no losses will pay less commission than someone who has 5 wins and 5 losses totalling £200 profit. This may seem strange but it is true.

Say you had 10 wins at £20 with 5% commission. You pay £10 commission for a total of £190 profit.

The random trader has 5 £80 wins and 5 £40 losses for a profit of £200 with 5% commission. He pays no commission on the losses. But he pays commission on the £400 (5 x £80) total wins meaning he pays £20 commission for a profit of £180.

So you can see a series of small wins is better than big wins and big losses totalling the same profit. Random Trader pays 100% more commission.

There are some good articles on money management. Read them, learn them, apply them.

### **Making mistakes**

We all make them and will continue to do so. The most successful traders minimise them, learn from them, but the ability to get over them quickly is the most important. Most of your errors will be due to emotion. Not cutting a loss, cutting a profit too soon, letting a profit run too long and see it die a death (the Massa debacle) are just a few. Make a note when you make one, stick it on the wall and look at it every day. If the wall gets full of post it notes, go back to your regular job.

You will have losing trades, they will not all be mistakes. You will know when you have screwed up, just don't let it ruin your day and NEVER try to recoup the loss on the next trade. Things even out over time and you will be ok if you don't let emotion

rule your trading. Over confidence is a thing to be wary of. You make a few brilliant trades and you think you are unbeatable. You raise the stakes. You lose. What happened? Well remember that in fast moving markets, time is a factor. If you are trying to get £10 matched at 4.00 and lay £10 at 3.90 then this can happen in a matter of seconds. If you are trying to get £500 matched at 4.00 and then get £500 at 3.90, while you are waiting to get the whole £500 matched the price can jump up to 4.2 by a load of people laying it in front of you and you are now left facing a loss. So the larger the trade, the more potential for disaster. Don't go too big too soon.

### **Conclusion – A summary of all we have learned.**

- 1. Get good equipment**
- 2. Trade in a quiet peaceful environment, be fresh.**
- 3. Work out your required income and match your bank to your requirements.**
- 4. Work out your tactics – Scalping or Position trading?**
- 5. Handle losses – control emotion, don't chase a loss.**
- 6. Practice trading regularly.**
- 7. Money management. Use it or lose it.**
- 8. Learn from mistakes.**

**And most importantly and this is by far the most common error. It fills trading blogs all over the internet.**

## **DISCIPLINE**

Without it you may as well not even start your professional trading career.

If you can't stick to rules you have set yourself or at a minimum, follow rules set by trading professionals for you to follow, you are wasting your time, and more importantly, your money.

I wish you the very best of luck.

Tony Hargraves

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