

PART I

**Inside a Prop
Trading Firm**

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CHAPTER 1**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

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 and 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 Statue 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 Bellafore 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

In this chapter, you'll meet Franchise, Money Maker, 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!

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, 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 a 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.

What is most hysterical about Dr. Momentum is that during this huge day, he missed the easiest move in GS because he was taking a self-imposed rest. Dr. Momentum has some stamina issues. By 11 AM, he looks like a fighter who needs oxygen. By 4 PM, some CPR might be needed. Add in his night of unrest and he was trading on fumes. GS dropped an important intraday support level of 100 and traded straight down to 86ish. Our desk's P&L spiked like the space shuttle taking off at Andrews Air Force base. Where was Dr. Momentum? Resting.

It was so much fun watching him so happy. As a partner, what could be better than a potential future star like Dr. Momentum, who says things like, "Positivity is a skill," and "It always comes back to the fundamentals: patience, discipline, hard work, a detailed plan." The guy who few would envision as a Wall Street assassin was just that in the fall of 2008.

Dr. Momentum's aggressiveness can cause a stumble here and there. The young trader who is always chattering is also tempted to overtrade. And restraint is a virtue that he has not yet learned but the Street generally values.

But I have my money on Dr. Momentum trading for many years. If not, maybe we can cast him in the next *Wall Street* as Gekko's accountant.

Our star of stars is about to enter the room. He is one in a million intraday traders. And it almost all never happened.

GMan: From "I Quit" to Head Trader to Partner

"If you are too comfortable in a trade then you probably do not have enough size."

—GMan, Head Trader, SMB Capital

I still remember the nervousness. It was odd. Why was this young person sitting across from Steve and me so nervous? Was he hiding something?

He, Gilbert Mendez, was a graduate of Columbia University with an engineering degree. His grades were outstanding. This young man had developed a black box for foreign exchange. And now he wanted to intraday trade equities. Or so he said.

We showed him a recent lecture I had written, which impressed him greatly. He asked to take it home. We balked. We do not allow proprietary materials to leave the office.

And we had all these questions.

Steve: What did you think?

Bella: Why was he so nervous?

Steve: He was not that nervous.

Bella: What was with all those questions?

Steve: He is an engineer. They make decisions after gathering as much information as possible.

Bella: I guess.

Steve: He was the best candidate we have ever interviewed.

Well, this last statement was a bit dramatic. We had been in business two months. He might have been the fifth person we had interviewed for our new desk (desk might be a strong word—"Gang of Five" might be more accurate since we had only five traders). But Steve is notorious for over-optimism. I call it being "Spencermistic."

"Spencermism" Never Dies

When we brought in a nice non-English-speaking Fordham graduate for an interview, the conversation went like this:

Steve: We are going to make so much money off of him.

Bella: I hope so.

The guy was never positive a day trading live. Ever.

When we created some commercial trading products:

Steve: We are going to make so much money off our intraday alerts.

Bella: I hope so.

We made \$500 the first year our intraday alerts were offered.

When we brought in Most Frustrating Trader, whom you will meet later:

Spencer: He is by far the best candidate in his class.

Bella: I hope so.

He should have been fired before he ever started.

So we had this Spencermistic feeling about this nice young man, obviously much brighter than me, with the hair of a TV soap star, who wanted to trade. It was GMan. GMan, our future head trader and now partner. Give that round to Spencermistic.

And at the start GMan struggled. He did not make a dime for his first six months. In fact, he was decidedly negative. In exchange for us wiping

out his negative balance we commissioned him to build our first web site. He did a great job!

GMan was temperamental. He would bang and scream and curse. But he was learning how to fade-trade, which is an excellent way to learn how to expertly Read the Tape. He traded like me, save with a tighter time frame. Before Dr. Momentum, who absorbed everything I said, there was GMan. Like a parrot, he would repeat what I had said a few weeks before about a stock. He still does. It is a great compliment. He was learning. He was like a young Bella but much smarter (and more hair).

Six months into his stint with the ultra-new SMB Capital, GMan infamously walked into our office to quit. That was not going to happen. His argument presented to Steve was like a guard penetrating the lane against Patrick Ewing during his Georgetown years. Rejection. "Get that out of here, GMan," Spencer swatted with sound reasoning as to why he ought to stay and most importantly a few things he needed to improve: tape reading and controlling his emotions.

So back to work GMan went. He crunched his trading numbers. We moved to a trading platform better able to reward GMan for his newfound trading skills. He found some luck with the start of the subprime mess. And finally he started to get it. And when he "got it," "it" came fast. \$1k. Then \$2k. Then \$3k. Then more per day.

Ask GMan about his first year of trading and he responds, "The numbers don't really mean anything for the first year and it's hard to put that aside and stay in the game. But as you progress, you will start to find consistency." Amen.

GMan kept at it. Longer-term intraday trades needed to be conquered. There were new spreadsheets created to track these setups. He created the SMB Chop Tracker from scratch where we break down our trading in a snapshot statistically. There was now less gel in his hair and more money in his bank. GMan had arrived.

How did the SMB Chop Tracker help? "I just started to eliminate a lot of the scalps that are really low-probability plays and I've been starting to work more on the high-probability plays and adding incremental size to them." Also GMan examines the trades from the SMB Chop Tracker when his P&L spikes and concentrates on how to trade these plays even better. At one point, GMan noticed that while he cannot scalp certain stocks like Mastercard, MA, he can position trade them off of key intraday levels. His statistics instructed that he could not trade MA in and out. But GMan found a new way to profit off of MA. Further, GMan's stats tell him not only what sectors he is trading poorly but also the specific setups that are not profitable. So now he can trade all sectors; he just makes adjustments precipitated by his trading statistics. Now that is a chop!

I really do not remember when we named GMan the head trader. He had been with us since Month Two. And one day we looked up and he

really was the best trader on our desk. Steve and I had started to handle more firm-related business (recruiting, legal, clearing deals, and so on) and could not focus on trading as much. So we needed someone to run the desk full time who we knew would steward our capital well and lead the desk. Making GMan our head trader was our best personnel decision to date.

How good is GMan? GMan has been stopped out once since he began with us. He's the guy who can beat you in a race giving you a start halfway to the finish line. Let me explain.

GMan missed one Open and an 8-point upmove in AIG because he was working on an SMB training tool. He received a text from a trader on the desk at 12:30 PM informing him of the AIG move. So he flipped open his LightSpeed platform, and spent the rest of day trying to catch our intraday leaders. By 1 PM, he was up \$1k. By 2 PM; he was up \$1,800 by 3 PM, \$2,200 and by 4 PM, \$4k. He almost did it. On most days, he is like an ATM. And by the way, AIG moved only three more points that intraday.

GMan enjoys his life as much as any young trader on our desk mixing diligent work with hard playing. If you walk on to our trading floor at 4:01 PM on a Friday, it is quite possible that his SMB coffee mug will be filled with Johnnie Walker Red. It does not go unnoticed on our desk that the trader most likely to be found cozying up to a young female out on the town in NYC is GMan. The indefatigable GMan has been known to make an occasional journey to Atlantic City on weekday night and make it back barely for the Open. The markets are a master challenge for GMan to conquer with his staggering mental acuity, and NYC, with all that it has to offer the young person, is his playground.

GMan will go on to become one of the best intraday traders on the Street. I have it on good authority that he is about to be named to a new best traders under 30 list. GMan recently purchased a partnership with SMB, rounding out his journey from "I Quit" to Head Trader to Partner. The best thing that ever happened to our firm was the day he walked into our trading firm!

Next, let's meet the Joe DiMaggio of trading, the most consistent intraday prop trader on the Street, Z\$.

Z\$: Make Discipline a Strength

When Z\$ (ZMush, Mush, Mushy, and Z are also acceptable nicknames) talks, it is hard to understand what he's saying. It's not that he's speaking a different language. He's just so soft spoken that one has to prompt him several times to speak up. He mixes a low volume voice with an exceedingly quick tempo, only compounding the problem. Imagine a jackhammer without the noise and this is how he shares his words with the world.

Speech recognition patterns aside, Z\$ is the most consistent trader on our desk. Not the most profitable, but the most consistent. He was

positive for two years straight. How is that even possible? In this regard, he is somewhat of an ungodly phenomenon.

Z came to us from another firm that had stopped making money when Hybrid arrived at the NYSE, so he was searching for a new home. A friend of SMB's, Ray Holland, managing member from Avatar Securities, proposed a sit-down. Mushy wasn't making much money at his other firm (at least that's what I thought he was saying). I found him down to earth and humble, and in the end we were lucky to find him. Thanks, Ray!

We have a bias for traders who have traded elsewhere, are struggling, and want to improve. Once they have bought into our philosophy, they tend to do well with us. First, they appreciate the value that we offer more than the new trader who has no idea how left alone you can be at another firm. Second, they have some built-in trading skills that just need to be utilized most effectively. Hence, their learning curve with us is much shorter.

ZMush was no exception. We got him in the Stocks In Play. We surrounded him with traders who shared valuable information. We stressed the importance of understanding what setups work best for him through statistical analysis. We made sure he was prepared for the day with our SMB AM meeting. Mushy quietly and unassumingly did all the work we asked of him, and he started to make money.

New traders sometimes believe that the path to becoming a big-time trader is paved by the necessary losses of significant money. If I can lose \$30k, then I can learn to make \$30k, the thinking goes. To me, this makes no sense at all. While losses might teach you good lessons at the beginning of your career, losing too much is irresponsible. The truth is that you must first learn to make \$100 before you can make \$200, and build on these positive results.

I would label Z the most consistent trader at our firm but that would not be painting the most precise picture. Z is like the Joe DiMaggio of trading, the legendary Yankee great who holds the record for consecutive games with at least one hit, and even that lasted only 56 games. As I write this book, Mush has not had a negative trading day in the last two years. That's 500 or more straight trading days. I guess that is how we derived his nickname Z\$. I'm not always sure how these names get started, but this one is par for the course.

Mushy has his setups and he sticks with them. He loves to watch a big offer decrement, pay the offer, and sell the stock when it slows into the upmove. Z\$ is so proficient at this scalp trade that we have named it after him, the Mush Trade. This setup offers a high-win rate and little risk. And he just scans the markets for the setups that work for him.

As I've learned, the same setups don't last forever, so GMan pushes Z\$ to expand his playbook every once in a while. When GMan finds a Trades2Hold he sends it Mush's way, and prods him to get into this trade.

As traders, we should spend each day stepping outside of our comfort zone so we improve. This is what GMan is offering Z\$, and Mushy just keeps getting better. The other day he held the volatile AIG for three points. A trade he would never have made last year.

After the Close of every trading day, you can find Z\$ without fail at his desk watching tape of his trading. After the Close, he constantly reviews his trades in his mind. Discipline is his strength. He sticks with what works while expanding his playbook with new trades that work for him. Just like the sun rises every AM, Z\$ is positive. The fun is watching him make more and more as he continually improves. Give me a desk full of Z\$s and I will show you one grateful trading partner and an extremely profitable firm.

BUILD FROM YOUR POSITIVE BASE

Those who trade professionally wish to make a lot of money. Prop traders are not trying to make \$200 a day. They want to make much more. They have rarely failed at anything they have done before. Perhaps they have been told their whole life that they were special. Most are the smartest person in any room. They are uninterested in being ordinary. And they aren't. But all of this can be damaging.

So these special, ambitious people start to do some thinking. On a treacherous, rainy day like the end of 2008 in NYC they might let their minds wander. *I am ready to start making some serious money*, they may think. *I really need to lay into some stocks with more size* certainly will be considered. I would look really cool in that new Benz on the back of the News today. I am better than that Dr. Momentum. Does he ever stop talking by the way? I want to be the Man!

Just some advice. Your risk-adjusted return is more important than your gross P&L. You shouldn't try to make \$5k a day by losing \$5k. You shouldn't do this after 10 years and you certainly shouldn't do this when you start. Often new traders think their ability to lose a lot symbolizes their potential to make much more. No, it doesn't. You should never lose more than half of your median intraday gains. If you are making \$1k a day, and a down day previously for you was -500, then now allowing yourself to lose -\$5k doesn't mean you will now be able to make \$5k. It means now you can lose \$5k. Some new traders just don't understand this.

If you want to make \$5k a day you must first be able to make \$500 consistently (downside of \$250). Then you must show that you can make \$750 consistently (downside \$375). Then you must demonstrate that you can make \$1k consistently (downside \$500). Then \$1,500 (downside \$750). Then \$2,000 (downside \$1k). You get my point. But for some very strange

reason traders think making that jump from \$1k to \$5k requires them to lose \$5k in day. Again no, it doesn't.

You build from a base. You build from your profitable base. The way to make more is to make more while contemporaneously avoiding proportionally greater downside risk. And if you can't make more than \$2k in a day with a downside of \$1k, then stay at this level for a while. There is nothing wrong with making that kind of money. Keep pushing yourself to get better. But do not force it.

One of the smartest traders on our desk has been making \$600 a day. And I know he wants to make more. And one day he will. But he forced it recently. And he didn't make more than \$600. He took a huge rip. He took a rip that will set him back weeks.

I was talking with Steve about this the other day. And he became very animated. Steve is ultra calm, so it is amusing to watch him get animated. But it usually means that he is about to make a very good point. And he did. Steve shared that new traders who are making \$600 a day can't take these rips for another very important reason. Unlike Steve or myself, they cannot make back \$5k. They do not have the skills. If Steve rips up 5k he can make that back in less than an hour. But a new trader cannot. If you are making \$600 a day, it will take you weeks to make back a huge rip. And this game is about putting money in your pocket, not throwing away a few weeks' worth of gains.

So build from your positive base. All of the traders presented in this chapter built from a positive base to become successful. Push yourself to get better. But do not force your progression. Losing more means you can lose more. It doesn't mean you can make more.

Let's meet a trader who just crept up on us, became good—damn good, and is still getting better.

The Yipster: Improve Every Day

I can't say I noticed The Yipster's trading for the first six months he was with us. Every once in a while on the subway ride home Steve would brief me that The Yipster's numbers were starting to get better. We preach that you ought to take the beginning slowly, that you ought to get a little bit better every day. In The Yipster, we have found the poster trader for this mantra.

The Yipster wins my award for Most Improved Trader. This is the highest compliment I can offer. After all, this is what trading is all about: embracing the philosophy to get better every day. How many people can accept that they must be self-critical every day and improve? Not many. Many just want to get to a place and rest. Not The Yipster. Not with his trading.

If you ask The Yipster how he improved every day his answer, with a NYC-born twang, is: “Focusing on being consistent, focusing on fundamentals, focusing on doing the right things. . . Obviously hard work also. . . You know, working, working, working on everything that I could possibly do to improve on my game.” You mean you did not have to visit any Mensa meetings? Oh.

Ask The Yipster how long will it take to realize his full potential and he answers: “I don’t think anybody can truly, truly master the markets. . . I mean, it’s just something that you can get better at, but I really don’t think it’s something that you can master. So, I mean, I’ll be working on it. I think my entire career, my entire life.” This is how athletes make their respective Halls of Fame, and The Yipster could be headed in that direction.

The Yipster keeps a detailed spreadsheet of all of his work. Every single order, every single trade, since Day One, has been recorded. The Yipster records his tape and watches his trades every other day. The Yipster says, “I just think there are no short cuts.” He searches for plays that he could trade better. He looks for ways to add size to his best setups. He does all of this to get better every day.

Do you have this philosophy as a trader? This is a guy who makes serious money regularly now almost every day, with maybe one negative day a month. As I said, he was completely off of our radar for the first six months of his trading. But he just kept working, improving, and now he is one of our best traders. It is not where you start, it is where you are headed that most counts.

At the start of 2010, SMB gravitated toward longer holding periods for our trades, Trades2Hold. Ask The Yipster what he is working on, “I am focusing on my Trades2Hold with bigger size.” Every so often I notice a big push from him, indicating progress with this goal. I can’t say that this progress jumps off the leader board. But then again, when he started, he took his time getting better. Why would this be any different?

Let’s introduce our good-looking TV star, the most optimistic and personable trader on our desk.

JToma: Practice Positive Perseverance

In the spring of 2009, I got a phone call from a woman named Rachel Pine. I had no idea who she was, but my friend and writing partner Chris Gillick had given her my name. Rachel was consulting for CNBC, trying to staff more traders for the network’s *Fast Money* program. CNBC loved her since she knew our community well from her time as a marketing executive at *Trader Monthly* magazine. We are not media shy, and her call made my day.

Rachel came to our office to meet us, and liking what she saw, she set up an interview between the *Fast Money* producers, and Steve, JToma, and myself. CNBC sent a car for us, we hopped in and started our trek to a place so far out of the way there had to be a reward upon arrival, the CNBC campus in Englewood Cliffs across the river. I did a double-take as I noticed Steve did not have any socks on. Typical. Steve couldn't care less about this meeting. Here we were, having built our company from nothing three years ago to our big meeting with the most-watched business network in the world. This was a big moment, and my partner and best friend didn't even bother to wear socks! But Steve was just annoyed to be off the desk in the middle of the trading day to visit a bunch of TV people. Steve doesn't like, get, or do traditional media (Steve later enthusiastically agreed to do three StockTwits TV shows a week, and during the trading day the first Web-native financial television network). Did I mention he also didn't shave?

Of course, I was pretty excited. Exposure on CNBC would only help in our recruiting efforts to attract young talented traders to our firm. And since we are only as good as the players we coach, this was one of the most important business meetings in our firm's young history. Did I mention my partner wasn't wearing socks?

This was a big deal for us, not because people would watch us *per se*, but rather there would be footage of us on CNBC. Forever. We would display it on our web sites and SMB Blog and there would be no mistaking that this SMB Capital upstart knew intraday trading.

JToma was never supposed to go on CNBC. Steve really was. JToma was a second option I was offering. Some people like a cheeseburger. Steve prefers a veggie burger. And JToma and Steve are as different as a cheeseburger and veggie burger, so CNBC had options.

There was an initial meeting with some bright, very young, energetic, fast talking staffers to vet us. We passed that first test and got sent up to the boss's office. Steve kept growing more annoyed. Another meeting? We need to get back to the office and trade, his body language announced.

And so we start our sit-down with the bosses. I explain who everyone is and why we are there. The producer of *Fast Money* starts making this motion with her hands to speed things up. I have to admit I was a little taken aback by this. Not to be egotistical, but no one has told me to start talking faster in four years. I am the co-founder of a successful proprietary trading firm. I am the one who cuts people off, ends meetings, and shifts the discussion. And often due to my time constraints, I am curt. And here was this producer gesturing at me to talk faster. I actually loved it.

A powerful TV executive, the Boss (I am not going to use her name because honestly . . . I am a little scared of her. She is really tough, but also someone who has a crystal-clear vision of what her programming ought to

offer) sat at her desk and scanned the room in our first 15 seconds of this important meeting. She asked Steve, "You don't wear socks?" My worst nightmare was about to come true. Steve blew our chance of being a regular on CNBC because to him this meeting was just a nuisance keeping him from his first love, trading.

And then one of the bright staffers summarized some of what *Fast Money* offered on CNBC. He talked much faster than I did, so apparently this was required in front of the Boss. Steve was inaudible but I knew exactly what he was thinking, "That is a great young TV staffer, but how the hell will that help anyone make money?" And then Steve explained how CNBC should do things differently. He did so in a correcting, almost condescending, fashion. Strike two.

JToma was our last hope (I was not there to audition). Steve wasn't wearing socks, and had clearly communicated his lack of interest for being involved in anything CNBC. As the meeting continued on, I could see him becoming more uninterested. I swear, I thought he was going to ask the Boss to switch seats with him, log on to his LightSpeed account and start trading.

JToma offered his background, but more importantly he fought for a chance. He wanted to be on this leading financial news network. He was positive, complimentary, and likable with his presentation. When he stopped, the producer of *Fast Money* smiled and said, "I like him. He's cute."

And that is how SMB got on CNBC. That is how as JToma likes to describe it, he "became the face of SMB (freaking TV stars)." And this is how JToma has been a successful trader throughout his career.

JToma is off the charts positive and persistent. His wife wouldn't go out with him when they first met so he reoffered a date at Nobu, one of the most delicious and expensive restaurants in the world. She accepted, as this is a dining experience not to be missed no matter who the company.

When we first started prop trading, the goal was to trade your own money. We made 10–30 percent of our P&L and needed to bank about \$250k to trade our own account. This was not even enough money, so we had to borrow another \$250k at 12 percent interest to sufficiently fund our account. We essentially had to make millions for our firm before we ever had enough of our own personal money to trade our own account. And when we did, we got to keep 100 percent of our profits after paying commissions on our trades (which were as much as 600 percent higher than they are today . . . ouch!)

JToma did whatever he had to do. He was the annoying guy on the floor who talked to anyone about trading at any time, even at the bar and on the weekends, but he was learning. JToma would hop in a car down

to the Jersey Shore to talk trading with the best traders at our firm where they relaxed on the weekend. JToma did not have a beach house, or even a summer share. He just went down for the ride hoping to gain nuggets from these successful traders. He would come in early, 7 AM, to rip through charts with the traders versed in technical analysis. He did anything to get better like The Yipster has done a decade later.

Not surprisingly, JToma soon made enough to trade his own account. Not bad for a guy not yet 23 years old. But in his first three months, he lost almost all of his money, more than \$200k. He was down to his last \$50k. The average trader would become depressed. I might. But JToma shrugged it off. He sought out a prominent performance psychologist and worked to improve some psychological hurdles, which were hindering his trading. JToma had become afraid to trade, and he needed to get his fearlessness back. The shrink worked. More than a decade later, he is still doing what he loves: trading.

This sports psychologist offered training techniques to improve his performance, which he still utilizes today. A daily journal was suggested and implemented. A plan for every trade was discussed and is now followed. Goals were set and surpassed. Favorite setups were identified and exploited.

Ask JToma what has helped him the most in his professional career and you get this response (by the way I had to edit his response by a good five minutes. JToma admittedly loves to talk.): "It's about doing the little things every single day and making yourself better, and that's my goal. My goal in this part of my life is to get better every day. If I do something every day to make myself better, I know eventually my P&L is going to show." Those horrid three months at the beginning of his career were an opportunity to learn and get better. That \$200k in losses was parlayed into many millions at a later date.

Before video review there was the JToma Review. And he still does this today. JToma also owns a private equity fund, which requires some travel. After a flight to Texas, JToma sat in his hotel room, stared at the ceiling and reviewed his trading, tick for tick of his trading day. And before video, this was an exercise he did habitually after every Close. He discovered the trades that worked best for him, and made more of them. He identified what did not work for him and eliminated those trades.

Often, behind closed doors, JToma will get frustrated at a trader on our desk that he is mentoring. He will begin, "I just don't get (so and so). . . . Doesn't he understand this opportunity?" Or JToma will utter, "I just don't get these guys. Don't they want to make money?" JToma believes you work as hard as you have to and do whatever it takes to make it. He did.

And this whole trading thing almost never happened for JToma. He was in DC, waiting to go to law school, and working around the clock to

pay the bills. His girlfriend at the time was upset she continually had to wait for him to end one of his late-night jobs. Her brother talked him into a trading job in NYC so the happy couple would have more time together. JToma accepted, put law school aside, and moved to NYC.

The day JToma arrived was April 1, 2006. Before his start date, JToma broke up with his girlfriend. He arrived and someone impolitely met him before he could walk on to the trading floor, "You broke up with the boss's sister, dude. Obviously, you don't have a job here anymore." So JToma, humiliated, turned to walk out of the office. And then everyone exploded into laughter. It was an April Fool's joke.

TRADERS ASK: "I'M RIGHT, RIGHT?"

I received an e-mail from a trader who is a superstar at reviewing his work. Below is an e-mail he sent to me in the spring of 2009:

I need to slow things down and do exactly this:

- Keep doing exactly what I'm doing, in preparation, in hard work, in planning trades, sharing ideas, and reviewing work.
- Have more patience so that you only trade each stock from the best levels—this will result in less volume overall and likely, fewer losing trades. Once you're in a stock, focus on just that one even if it means just waiting on it several minutes.
- Hit the sweep key if your price is .05 or more out of the money and you haven't already got out on offer (bid). Simple. Only way to kick this finally.

This was my response...

You have developed bad habits when it comes to hitting out of stocks that trade against you. You need to form good habits. I would spend 15 minutes every day on the demo working on hitting out of stocks. Pick an active stock, set an exit price, and if the stock hits this price, then get the F out. You must condition your mind to habitually hit out of stocks that exceed your exit price.

Also, you should have a conversation with yourself. Why are you so interested in proving that you are correct with a position? No one cares about your opinion. No one cares that you think a stock will go up or down. No one.

Most importantly, trading is not about being right. Trading is a game of math. It is about finding setups that offer you a good

risk/reward and pulling the trigger. Thirty–40 percent of these trades will result in a loss. This is the game. Dr. Steenbarger blogged this a ‘narcissistic desire to be correct.’

You are trying to be right. Consistently profitable traders just make good trades. They accept that they cannot control the results. Think about it.

This trader must develop the habit of hitting stocks that trade against him. And he needs to do some drills every day so that he develops this skill. But it is also important for him to understand himself better. Understanding that he has a psychological need to be right will help develop this skill. The reason he is not hitting stocks that trade against him is because he has not developed this habit. The reason he did not develop this habit, though most easily do, is because he has a psychological need to be correct. Understanding this will help him conquer this trading flaw.

We all have flaws. There are things we must all work on. Sometimes having a conversation with yourself can help.

The market has taught me what is important to become successful as a trader. The traders we just met possess characteristics for you to model that will truly impact your trading results. Next, I will share with you a way to measure your trades. Let’s go discuss your most important task as a trader—One Good Trade.

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