CHAPTER 1

Eat a Percentage of What You Kill

With a solid thundering crunch, Jack's foot landed against the wall of a Swift Trade Securities branch's trading floor, as he systematically progressed through his extensive arsenal of every known curse word in the English language in stark contrast to the soft-spoken business speak on the CNBC and ROB TV commentary originating from the mounted television sets.

Even on a trading floor, where profanity is as common in everyday life as public arguments are on the New York City subway system, Jack's command of his R-rated vocabulary showed a mastery in its own right. One might even imagine that it could be formalized into a new regional dialect for use by a very primal tribe of hunters and gatherers who live to accumulate a stockpile of resources eclipsing those of the average tribe in its environment.

Despite all the forms of information bending from semi-denial to blatant spin in its various forms throughout Wall Street and Bay Street, this is a business with a culture that, by its very nature, revolves around the accumulation and excesses of money. Even if the ends that justify that means for each individual may vary from personal ego stroking to fantasies of a philanthropic empire, the nature of the beast is fairly consistent and predictable across the board. Beyond all the talk of controlled psychology and discipline for professional traders, this is a business that ultimately revolves around profit and loss.

And when Jack lost, he made it loud and clear to the other traders on the floor. The only reason this had been tolerated for years was that he profited from the markets more often than he got up off his seat to assault the structure of the building. In fact, his profitable days were equal to many college graduates' yearly salaries. And while he was arguably an extreme within a wide spectrum of personalities in the business, he was the epitome of the types of personalities that I hadn't expected to see from profitable traders after reading more books from the retail trading world than I was probably expected to read at the start of my career in the world of proprietary trading.

I sat anxiously in the waiting area outside the interview room. Luckily, I could see the trading floor through a window, which kept me occupied with all kinds of visual stimulation. Aside from the CNBC and ROB TV commentary on mounted screens, there were more tubes mounted over the trading desks showing lines of green and red scrolling over a black background. For a moment, I had considered that maybe this was some sort of indicator custom developed by the company to signal buys and sells with the green and red. In either case, whether these were colored lines of text or just a Christmas-themed mood changer for traders, all I knew at the time was that I had never seen anything like it before.

When I initially discovered my unexpected fascination with the financial markets, it was a lot like a new toy that I wanted to know everything about. Strangely enough, what was more important for me was that it was an area of interest that wasn't remotely expected of me at the time by friends and family.

For unexplained reasons, I had always felt a personal satisfaction in doing and choosing what others hadn't expected of me—and to generally be what others wouldn't have expected me to be. All the while, I was becoming increasingly aware of the inherent self-defeating loop of contradiction that arises from attempting to go against the grain, especially when living in or near a predominantly liberal-cultured city like Toronto or New York City.

Having grown up in a small town surrounded by cottages, lakes, and farms (aka "overrated giant puddles and cow droppings," to sanitize my term for it at the time), located about an hour's drive north of Toronto, all the typical connotations associated with life in a crowded and polluted city created a different context in my mind. During elementary school, I had hoped to eventually live and work in a major city like Toronto or, better yet, New York itself. New York was (and still is) the city that is depicted in almost every movie or television show—and incidentally, the actual city cast to play it on camera is often Toronto. So while the finance industry was the farthest thing from my mind in school, both of the financial capitals of North America were among the few locations I had already chosen as the backdrop of my future. While both are near or surrounded by the same sort of giant puddles, neither quite had the attributes of isolation and cow droppings I had grown to resent at the time.

Being raised by extremely liberal-minded parents, who fully encouraged and supported every career choice I had considered in my youth—which ranged from screenwriting and fiction writing to graphic design and photography—there weren't many ways I could really shake up the status quo. In high school, my attempts to develop a few decidedly right-leaning political views (by Southern Ontario standards) was probably the most shocking act I could manage at the time.

As a small twist of irony in the years to come, it might be a little amusing to note that I would later come to view the inherent freedom of a trader to decide his or her own fate (and income level) to be a much better fit for the liberal ideals I had been raised on than any of the traditionally conservative stereotypes of various players in this industry.

As the years passed, it became clear to me that there was little I could do to deny that my personality in adulthood would be heavily influenced by the culturally ingrained ideals of independence, individuality, and striving for change from the status quo, so often reinforced by peers, family, education, and the Hollywood and New York headquartered media empires I had grown up with. And somehow, the similarity between two apparently disparate worlds became increasingly obvious.

When you become a trader, you very quickly learn that you'll only eat what you kill. Or at a proprietary trading firm, your proverbial pack of wolves, you'll only eat a percentage of what you kill. (The trade-off, of course, is that your membership in the pack would give you access to the wisdom of the elder hunters and they would enable you to hunt exponentially larger prey than if you decided to hunt alone.) Nevertheless, for the vast majority of traders, that translates to: not very much—or nothing at all in the case of many trainees and beginners. For a select few, however, it can be a constant feast, at least for a relatively short period of time in one's trading career. All these attributes of trader success, and the odds of achieving it when compared with the number of beginners, are strikingly similar to the success rate of writers and artists.

That is, as a trader, your only income will come from possibly inconsistent but potentially large profits as a product of your' individual ability, combinedwith a certain degree of random luck.

To be clear, it's not the 100-plus trades a day performed by a skilled master of high volume scalping in stocks that I'm attributing to random luck—that sort of win rate at that sample size is far beyond random. It's the fact that such a scalper was born predisposed to develop such skills and knowledge just in time to take advantage of today's fragmented electronic markets and dark pool liquidity, which might afford a trader the opportunity to realistically apply these abilities; that is purely random luck. The same trader could easily have been born into a time and place when such abilities to trade with hotkeys on a keyboard and tape reading skills were as applicable and practical as a natural-born computer programmer would have been in 1950.

Before applying for my first proprietary trading position, I thought I was prepared, maybe even overprepared. Mountains of reading material were available to beginner traders looking to trade their own accounts. While the material varied in content, quality, and honesty, a few consistent themes remained: Take your losses and let your profits run; accept losses as a business expense; trust the well-known technical analysis-based setups; discipline, discipline, discipline, and—psychology.

While almost all these clichéd principles are generally true for all sorts of theoretical and mathematical reasons, not the least of which is to prevent the immediate loss of an entire account balance by a single stubborn directional trade, it turned out that not every component listed would always be entirely necessary at all times for success in short-term trading.

Little did I know that not a single educational product available at the time had prepared me for the world I was about to enter.

Before applying to Swift Trade Securities, I had also done my share of homework on a number of other non-bank proprietary trading firms that were active in the industry at the time. Bay Street was in no short supply of them then. I had also made an effort to network with a few of the experienced proprietary traders to whom I had access, and hunted for as much relevant information as I could find, although little was readily available to outsiders. Of course, such efforts would become much easier once a trader has joined the broad category of an "experienced prop trader," but I persevered.

The term *proprietary trading* refers to the use of a company's capital to trade financial instruments. While buckets of sweeping generalizations

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have been applied to these companies in the financial media and various Internet communities, proprietary trading firms actually come in many different shapes and sizes.

The category of non bank prop firms in the United States and Canada that I discuss primarily in this book are often misunderstood for many different reasons. And despite the many shades of gray in the industry, they actually fill a very necessary and beneficial role for some beginner traders as well as seasoned traders of certain styles that simply cannot be filled anywhere else. Today, similarly structured companies exist around the world, from Toronto and New York to London and Amsterdam. Many trade exclusively on the U.S. equity markets (though there are exceptions that trade non-U.S. stocks, but still typically do so in addition to their American counterparts rather than exclusively). Some of these non bank prop firms specialize almost entirely on day trading equities; others might hold overnight positions, and diversify into other markets. The few who do trade in futures contracts, currencies, options, and other derivatives are, however, proportionately rare in comparison to the equity-only companies within this segment of the industry.

While major investment banks were once permitted to operate proprietary trading desks of their own, recent regulatory changes in the United States (specifically, the enactment of the Dodd Frank Act in 2010) eliminated this structure. Today, some of the former bank traders are often offered positions at non-bank proprietary trading firms and some types of today's hedge funds.

Of the non bank proprietary trading firms, there is an entire breed in Canada, as well as some parts of the United States, that began originally with their primary business model focused entirely on a specific style of frequent, manual, high-volume day trading for relatively small profits. (That is, small in terms of the stock's price movement but certainly not small in terms of nominal dollar value or profit and loss figures.) Such trades are rarely held for longer than 15 seconds, up to two minutes at the most, but are not quite in the realm of the High Frequency Trading (HFT) buzzword epitomized by the fully automated algorithms that engage in sub-millisecond trades co-located at an Equinix data center in Secaucus, New Jersey. This manual high-volume scalping technique is a classic style of trading that has evolved from its pre-electronic roots alongside today's fragmented (read: highly competitive between electronic exchanges to the benefit of the trader) electronic markets, and remains a staple of many proprietary traders' strategy arsenals. While many of the traders who began careers with this style of trading have also branched out and supplemented the entire approach with completely different types of strategies and time frames, many high volume scalpers continue to fall back on the style, with adjustments to ever changing market conditions, as a base source of income.

In addition to the convenient access to the wisdom of experienced traders and extremely low institutional commission rates and fee structures (especially compared to retail brokerages), one of the primary advantages for many traders in obtaining a position with a prop firm is access to capital and exposure to alternative trading styles as companies continually adapt to the constantly changing market environment (either due to advances in technology or changes in regulations).

Some firms also allow overnight positions to be held, in addition to day trading, but those were rare within the breed on Bay Street back in 2006.

Swift Trade Securities was a large Canadian firm originally founded as a retail day trading brokerage during the tech bubble of the 1990s and later restructured to become the seminal Canadian non-bank proprietary trading firm specializing in high-volume scalpers (traders who typically enter and exit for one to two pennies of profit using massive share size to rake in tens of thousands of dollars per day). The company's business model led to a further advantage in the markets as it often transacted high volumes with each market center. At the end of every month, it was not uncommon for the senior traders to receive a bonus in the form of an added rebate for high trading volume, originating from some of the top ECNs (an acronym that stands for "electronic communications network," but the term is used in finance to specifically refer to today's purely electronic order matching systems that are covered in detail in coming chapters).

I would later learn that many of today's Canadian proprietary traders began their careers as "Swifties," especially those who started out as trainees in the era when initial training was almost entirely focused on high volume scalping strategies, including those who later branched out into other styles of trading.

Based on my own research, the company was in the process of expanding with branches across Canada and in financial centers around the world. There was only one true consistency across all the views and opinions of the firm at the time: Every trader who had experience with them either loved them or outright hated them. Like most topics with extremely polarized views held by opposing groups, the truth landed somewhere in the middle and the actual opinions held by such extremists are motivated by some form of personal interest, success, or problem, involving the subject at hand. The most likely truth in this case is that many of the traders who didn't survive the cut would naturally become the company's harshest critics. The main criteria that deems a company to be a true proprietary trading firm is that its traders risk the firm's capital, rather than the individual trader's own money, in the markets. And Swift was a truly unique proprietary trading firm among the many shades of gray in the industry.

Also of note as of this writing is that Swift Trade Securities as a corporate entity no longer exists, but many of its branches continue to operate either as franchises of other parent companies or as branches of one of its owner's new entities.

Initially, I had attempted to prepare myself for my experience as a new trainee at the company by secretly planning to do what seemed clever to me at the time based on all the information I had gathered about day trading up until that point in time: I would attempt to gain an edge over the markets by backing up all of my short-term trades with longer-term chart-reading skills and technical analysis methods I had learned from all of the educational material I had gone through. As long as I followed the usual advice on psychology, cutting losses, and technical analysis, I was convinced that everything I needed for success as a prop trader was already right there in front of me. Essentially, I only needed to learn how to enter the orders.

"What more could there possibly be to it?" I thought.