What's Your Trading Blood Type?

By Ilan Levy-Mayer

Perhaps the greatest luxury I have in this business is the ability to observe the experiences of many traders with different personalities, life schedules and risk capital, each trading in a variety of markets. What most astute brokers realize is that, over time, as some individuals prematurely exit winners while others desperately cling to losers, it becomes quite possible to match different "blood types" of those traders with their correct "trading diets." Clearly, we're not talking the medical blood type here, but in the figurative sense it makes the right point. With practice, it's not too hard to determine blood types (type of trading best suited to the individual) based on the personality of the trader, and then prescribe a diet based on that individual trader's capital, experience, risk profile and schedule.

Discovering Your Blood Type and Trading Diet

Just like a diet, where there is no right plan for everyone, in trading there is no single plan for all traders. Before deciding whether to "cut out the carbs," "add more fiber," or simply avoid certain markets, do some self-assessment, starting with personality. For example, are you hesitant or impulsive? Patient or short-tempered? Identify strengths and weaknesses, and then let someone close to you help pinpoint those personality pros and cons. Have a tough skin; it's for your own good.

To further understand your personality, keep a trading journal to help zone in on specific traits and how they affect your trading. Remember, understanding your personality is one thing; understanding it when you're trading is another. While patience with children is good, patience with a losing trade is not. A journal enables traders to review winning and losing trades and identify factors that aided in success or contributed to failure.

After reviewing inner traits, don't forget to review the outer ones–your schedule and risk capital. Think long and hard about how much you have available in terms of time and risk capital when it comes to trading, and don't delude yourself. In addition, look at *how* you are using your time and risk capital. Go over the market(s) you are trading, the style of trading and time frames you are using. Is this market, this style and this time frame suitable to your risk capital and personal schedule? Are they suitable to your personality?

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Doing some self-assessment is absolutely essential to determining what type of trading diet you should be on, as the examples later will make clear. But first let's define the trading blood types and their respective diets.

Blood Types and Trading Diets

No A-positive or universal donor types are necessary here. Instead, for our purposes, let's classify types by using NT, PT, DT and ST.

NT. Is futures trading suitable for you *at all*? That is the question. Futures require a desire to take risks and, of course, the ability to afford to take them. These simple suitability questions must be firmly answered in the affirmative before anyone can consider taking the futures plunge. Those who have little desire for risk, have little risk capital to spare (and completely disposable income at that) and little time to devote to this very challenging exploit are classified as blood type NT (No Trading). The right diet is no trading at all. No carbs, no cals, no fiber, no fat. Nada.

PT. Those who are either gun-shy *or* trigger happy would be classified as blood type PT (Position Trading). With what kind of regime, you ask? Clearly this type requires a rule-based diet. To develop those rules first and foremost means doing some homework after market hours. Once these rules are in place, test any possible trade idea against those guidelines because each trade must pass this test *before* Mr.. or Ms. PT enters the trade. This is the time to plan a trade from start to finish, visualizing a few different scenarios with a possible action plan. It may also be the time to employ the assistance of a full-service broker. His or her job should be to help implement the rules that will keep the trigger-happy trader from going nuts or help the trader with a fear of pulling the trigger to take the right kinds of actions.

DT. Some traders simply cannot take any positions home with them. It hurts the quality of their "after-trading-hours life" and makes them uncomfortable. Most of them also are impatient by nature and tend to over trade. They feel a need to be in the market at all times because they are scared of missing a good trade and scared of losing too much. This blood type is classified as DT (Day Trading).

Patience, discipline and strategy are the main diet ingredients for this group, but certainly not exclusive to it. Setting daily loss limits is a must, and a daily trading journal will help them quite a bit. The correct training cycle for successful day trading involves education, planning, routine, survival and getting to the point where a trader finds the set ups with which he is both most comfortable and can produce high success rates. A note here: More often than not, the biggest obstacle DTs face is the patience for such a set up; they feel they are not working if they are not trading, because they are day traders. This is one mentally crippling thought they must get over to survive. Being a day trader does not mean that the individual *must* be in the market with frequency – only that he must be flat at the end of the session so as not to take his position(s) home with him.

ST. Then there are traders who try to go with the flow of the market and take small to medium bites out of market ranges or, perhaps, trade ranging markets between different support and resistance levels. Many will do it well for a period of time until they are almost married to it and get stuck with a loser. Let's classify this group as blood type ST (Swing Trading).

The biggest problem most swing traders have is the ability to take losses. One too many traders – even those who generally are good, consistent traders – fail by carrying one big loser one too many times. Is this stubbornness, the inability to admit making a wrong move(s), simply a case of hoping instead of trading? Those who have walked in these shoes know who they are and should be ready for the ST diet – placing stops and understanding that even the best of traders have more losers than winners. The math is very simple. Because many markets will trade sideways, there are times when both longs and shorts will come out losers. Some trades simply don't work. The bottom line is that the total of a person's winning trades should outnumber losing trades.

How Two Traders Changed Their Diets

The following two examples, which combine traits of various clients with whom I've worked over the years, point out some of the considerations of which traders must be mindful as they try to figure out what trading diet is most appropriate. The names have been changed to protect both the "innocent" and the "guilty."

Example #1. Karen was one of my first clients. A smart and outgoing woman, she worked in the human resources department for a large company. During her first two years, she had some winning trades but, overall, her account was down.

Karen juggled a busy schedule everyday. She had numerous meetings and often traveled, yet she insisted on day trading stock index futures. I tried to direct her into a different approach, but she resisted.

My advice did not sink in until she hit a period during which all of her trades were going against her, and she was facing a margin call. When I spoke with Karen, her normally self-assured demeanor had changed. She was scared. She was no longer looking forward to the next trading day. After losing most of her money, Karen struggled to make a trading decision. The once confident, outgoing and independent trader was now grasping for outside advice from a variety of newsletters and other resources. She was desperate.

On the morning after a long holiday weekend, Karen called me and with a steady, confident voice, placed orders to get herself out of *all* of her positions. Over the weekend, she had read a book or two and had some conversations with her husband. It's hard to determine which of these produced the "epiphany," but she now wanted to try a different approach – one of a longer-term nature (PT). After careful reflection, Karen recognized that she was at times impulsive, stubborn and simply not realistic (not good for a DT).

Even though she clearly could not devote the time necessary to be a day trader with her current work schedule and mentality, she realized that her routine and dedication must change completely no matter *what* the trading time frame. She was now dedicating 30 minutes during the day and/or evening to go over the markets. She adjusted her trading size to fit a longer-term approach but, most importantly, she had a plan, and that plan fit her schedule. She no longer had to make decisions in the heat of the moment. She started looking for longer-term trends that did not require hour-to-hour decision making.

Karen finally understood how to successfully incorporate trading into her life while having another demanding career. Her account has grown over the last two years through the changes she implemented in her routine, behavior and trading style.

Example #2. John started trading about four years ago. He seemed an agreeable enough person, but very business-like with no time for chit-chat. He wanted to trade online from the start because he had plenty of stock trading experience. John lived on the West Coast and was a real estate agent who did pretty well in the dot com bull market trading stocks until the market met its maker. Confident, willing to learn and fairly disciplined, he was trading with $25,000 of pure risk capital, adequate for a first-time futures trader.

Days went by and every morning as I was going over my clients' daily statements, I noticed that John was trading coffee. Not only was he trading coffee, but he was sometimes *day trading* coffee. I let him know that I would be pleased to talk with him about various markets if he wanted. He would call once in a while checking on fills and asking about different reports.

A few weeks down the road, John called and mentioned he would be in the L.A. area and would like to meet for lunch. During lunch, he mentioned his frustration over recent losses when trading futures. At this point, his account was down to about $14,000 over a six-month period. I asked him why he was attempting to day trade coffee, and he said his brother-in-law was a coffee importer/exporter, and he thought that it would help him. The coffee market was open from 6:15 a.m. to 9:30 a.m. PST, which perfectly suited his work schedule, but as I found out later, not his personality.

I asked him to start writing a trading journal, which allowed him to look back objectively and find patterns in behavior that both helped him and hindered him. John's journal revealed that he was frustrated with the slow fills of the open-outcry coffee market, and so he was quick to get out of winning trades and too slow getting out of his losers. He was trigger happy and at times traded larger positions than he should have.

I suggested that we change his "trading diet" around a bit and introduced him to the U.S. Treasury bond and the E-mini stock index futures; both trade electronically and provide instant fills. These markets were perfect both for his schedule *and* personality.

I felt that these were good markets for both day trading and swing trading and recommended a few concepts in money management and trade management. The first was the maximum daily loss that he should set and place in a visible way as a reminder. The second was the setting of a daily profit target. Though it was somewhat hard to implement, if he could walk away when he was down to his maximum daily loss or when he reached his daily profit target, he would last *much longer* as a trader. It also would give him a better chance of succeeding down the road – in other words, smaller steps down that longer road.

John is still down in his account, but he is making progress. Here are a few tips that have helped him: Instead of buying and selling five contracts at a time and "starting and finishing" the trade this way, he now gets into his trades in multiples of three. In the past, John simply would buy five contracts when he thought he needed to go long and sell five when he felt he needed to take profits or cut his losses.

When John gets into a trade these days (let's say in a long position), he will buy six contracts and place a stop loss on all six. Initially, he looks for a small profit on the first two contracts. (It helps him mentally to know "I took a profit on this trade.") He then raises his stop loss and changes it to a four lot. He looks for a second profit target for two more contracts based on his support and resistance levels. If that profit level is reached, he can get "greedy" with the last two contracts. In essence, he now knows how to manage his trades in a way that increases his profitability. And, further, and perhaps as importantly (based on his personality), he does not feel like he is missing out on big moves if they happen, and he still locks in small profits when they present themselves by using the first and second targets.

Be Realistic

Succeeding in futures trading takes hard work and time, and new traders need to be realistic and introspective right from the start. This is no time to devote anything but risk capital. Beginners should start small, allowing periodic checks to learn from mistakes...and from successes.

Just like anything else in life, from diet and exercise to business and career choice, one size does not fit all. Before anyone can succeed in trading, he or she must spend time doing homework, as well as ascertain personal strengths and weaknesses, schedule, risk capital and trading experience/ knowledge. Only with those in place, can traders choose the trading diet that will work for their blood type.

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