

# SUCCESSFUL TRADING TRANSITIONS

By Lewis J. Borsellino

When I decided to become a trader some 20 years ago, I didn't just walk onto the floor of the Chicago Mercantile Exchange and start trading. I got a job as a runner, making minimum wage, and learned the ropes as I worked my way up to assistant broker, then broker and finally a trader with my own account.

Even with this hands-on education, it was difficult for me that first year. Losses undermined my capitalization and my confidence. I took a job at night to help support myself so that I could trade during the day. Finally, I had learned enough from my mistakes that I could keep trading. Then, a lucky break – actually an out-trade that netted me \$57,000 – allowed me to trade fully capitalized for the first time. I went to what was then the newest and hottest pit on the floor – the S&Ps – and I never left.

This School of Hard Knocks cannot be avoided when it comes to trading. Even if you have a stellar professional background, trading is an entirely different endeavor – whether you're on the floor or at the screen. First of all, there are unique disciplines, techniques and strategies that you must learn and employ to trade. Secondly, you are competing in an arena with experience traders, professionals and even institutions. You're like a fish being thrown into a shark tank.

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And, if that's not enough, then you face the toughest lesson of all – controlling your ego and your own personal demons of greed and fear. By keeping in check that part of you that “has to be right,” you will be able to cut your losses quickly and execute your trades according to your plan.

The other part of the School of Hard Knocks is accepting the fact that you probably will not make money the first year. Over the years, I've trained a lot of traders, and I tell them the same thing. If they scratch the first year – no profit and no loss – then they have a chance to be successful. That's my expectation for them: no profit at all, just covering the cost of their seat leases and commissions.

Many people who go into trading, however, have an entirely different perspective. They want to make money – lots of it. And, they expect to make it tomorrow. Unfortunately, it's this kind of attitude that undercuts a trader's potential to make money. Think about it. If you're so focused on making money, you will severely hurt your potential to do so.

Here are three examples of traders I know. I've changed the names and details to protect their identities. They are representative of a lot of wannabes out there.

## Trader “Joe”

1. “Joe” is in the building trades, an occupation that he now sees as limiting. He has been dabbling in stock trading, and has turned a modest profit. He has \$5,000 and wants to trade – full time. Joe also has a wife, who doesn't work outside the home, two kids, and a \$1500 a month mortgage.

## Trader “John”

2. “John” is a 22-year-old who has \$20,000 from his grandfather to set himself up as a trader. He worked as a clerk at a trading firm for six months, earning only minimum wage, to learn the ropes. Now he’s ready to trade. But before he gets down to business, he leaves home and rents an apartment downtown. His monthly expenses – rent, food and entertainment – are \$3000.

Both Joe and John are starting out with tremendous disadvantages. Their lifestyles and their lack of financial cushions demand that they make money the first year of trading. That means, from day one, they are going to focus on the money and not on making trades. That’s a big enough pitfall for traders like myself who have been at this for a couple of decades and, by skill, luck and the grace of God, have enjoyed financial success.

What traders must see is that the money in their accounts is not a profit. Rather, it’s inventory. You can’t trade without that inventory-money any more than a lumber mill could cut boards without logs.

For a beginner, the emotional highs and lows of trading – making and losing money – are tough enough to handle without the pressure of having to make a certain amount of money. In short, Joe and John have disillusioned themselves about the learning curve and the tremendous challenge that traders face.

They set unrealistic goals for themselves. At TeachTrade, we want to help you avoid that set up for failure. We want to give the technical support you need as well as the educational and emotional support. And like the traders we train, you should not have any financial goals for yourself that first year other than covering your costs for quotes, commissions, etc.

## Trader “Bill”

Now, let’s take a look at another trader: “Bill” has been trading on the side for three years. The first year, he gave back as much as he made trading. The second year, he did a little better, and the third year he made a good profit. He has \$25,000 to trade and a \$15,000 nest egg that he vows he won’t touch. His wife, who is employed full-time outside the home, has an ample salary to meet the family’s financial obligations. Bill has reached the point in his life and his career that he has to make a change. His “trading” is getting in the way of his job. With his wife’s blessing, Bill is going to quit his job and trade full time.

In trading, as in life, there are no guarantees. But of the three scenarios, Bill certainly has the best chance. He’s been trading, made plenty of mistakes, showed he can handle losses as well as wins, and has a financial cushion. Moreover, he can scratch that first year of trading full time and not forfeit on the mortgage.

The moral of the story? Know what you’re up against when you’re trading. If you’re focused 100% of the time on how much money you’ve made or lost, then you have greatly handicapped yourself. That burden you carry is like trying to run a marathon with 50-pound weights on your ankles. You won’t make it very far.

Trade with discipline. Trade with a plan. And above all, make trades that make sense, and not trades that MUST make money.

