

WHEN LOSSES MOUNT

By Lewis J. Borsellino

“I *really* need your help,” the email stated. “I have nowhere else to turn.”

The plea was all too familiar. Over the years, I’ve heard about – and witnessed – far too many “crash and burn” incidents when too much risk and not enough capital collided.

This latest email came from a man who had been trading S&Ps for five years. He had lost everything in the process: his home, his car. He was thankful his wife still stood by him.

While I’ve enjoyed success as a trader, I’m still respectful of the losses I’ve endured over the years. I know that if I don’t respect those losses – and pay attention to the lessons that they contain – I’ll be forced to repeat them.

The lessons are universal, but at the same time they are very personal.

When losses mount, there is undeniably something wrong with your trading system. Your research, your trading plan, your execution. You must dissect each of your trades to find out exactly what went wrong. Was your stop-placement correct? Did you risk too much capital? Was your trading plan backed by technical research, or did you trade on a whim?

Capitalization and risk-management are inextricably linked. The size of your trade is dictated by the capital you have. To preserve that capital, you must place your stops so that your potential losses are limited. Exit points for a profitable trade must be realistic. Ideally, you should stand to make \$2.00-\$2.50 for every \$1 that you risk. Leave the “moon shots” to NASA. Make solid, well-executed trades.

Trading is inherently risky. It is a profession that is not suited for everyone. People who have been incredibly successful – both professionally and financially – may not be inclined to be traders. I can’t answer that for you, nor can any trading “coach” or teacher. Only you can say if trading and the risks involved are something you can handle.

It bears repeating. Because trading is risky, you can’t bet the proverbial farm on it. In other words, start out only with speculative capital – the potential loss of

which would not negatively impact your lifestyle. It's not just a disclaimer. It's a rule of survival. If you risk the money you need to pay your mortgage and your bills, put food on the table, and finance your kids' education, you will severely undermine your trading psychology. If you have to think about every \$1 on the line, you will not be able to focus on the trading. Remember, you must think about the trade and not the money.

If you find yourself in a desperate situation, you cannot afford to take on any more risk. Even if you believe that you were born to be a trader, you're not in any condition to trade. Take yourself out of the market. Go back to your day job, or get one to raise capital. Keep your mind in the market, but keep your money out of it. You need to get back to the basics.

And then you need to take a very long look at yourself, to figure out if trading is really something you want to do. If you're just looking at the potential outcome – financial independence, material possessions, etc. – then your motivations are faulty.

For me, like the majority of traders, it's not the money that motivates. It's the competition – versus the Pit, the screen the market.

If you still believe that you're cut out to be a trader, then let me share with you a powerful comeback story. He was a successful trader who made a lot of money – and then lost a lot of money. He drove a cab to support himself. In fact, to save as much money as possible, he actually lived in his cab for a short time. He drove a cab at night, slept a few hours, then traded all day.

His discipline and dedication were his strongest assets. He made a comeback and retired from trading a very financially successful individual one.

Comebacks aren't impossible. But before you can begin the journey back, you have to ask yourself: are you on the right road?

