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10 TRAITS OF BRILLIANT TRADERS

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BECOMING A SUCCESSFUL TRADER

FOREWORD

When one thinks about successful traders it's easy to imagine colourful individuals making large, high risk bets on the direction of international markets, almost on a whim - and then scooping the prize as their 'punts' come good.

There will always be a few charismatic risk takers amongst the world's traders who, by a quirk of fate or an intuitive reading of an economic situation, make a fortune and live up to that image. The truth is that the vast majority of the world's successful traders do not match that stereotype at all.

Rather they are diligent, disciplined and not prone to erratic behaviour. In fact many successful traders could almost be described as robotic or systematic in their approach to the markets. This may go some way to explain the rising popularity of algorithmic trading

methods over the last decade or so.

Just as in the fable of the hare and the tortoise, the trading race is not a sprint and a slow and steady approach will often outshine a frantic burst of activity at the beginning of a trading journey. Set out below are ten things that brilliant traders do and do well. If you can follow these guidelines, then you will be on the right road as far your trading journey is concerned.

Patrick Latchford
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ONE: A CLEAR TRADING STYLE

Traders are individuals and though there will be similarities between them, they are not and never will be clones of each other. After all they are for the most part human beings and therefore have a diverse range of emotions, drivers and approaches to their trading. The successful trader knows him or herself and should be able to identify both their strengths and weaknesses. Part of that self awareness is deciding on or recognising their own trading style.

Classically there are thought to be three major trading styles: the Scalper, the Swing Trader and the Positional Trader. Whilst they will all share the same end goal - i.e. the pursuit of a profit or return on their investment, they will each take a very different path to get there.

Scalpers

Scalping is the most active of these three trading styles and as such is the most time consuming of the three. Scalpers are looking

to harvest a few points - or ticks as they are sometimes known - from short term market moves such as an emerging trend, the end of a trend, a false breakout or reversal.

'Little and often' is their mantra as they trade frequently hoping to scalp a small profit from as many trades as they can. Whilst at the same time 'scratching' or closing any non-performing trades for 'flat' or as small a loss as possible. Scalpers may hold a position for just a few moments and repeatedly trade a given move.

For example, where a short term range develops in an FX pair and the price of that pair moves rapidly between 'support and resistance' levels. Such ranges are unlikely to be long lasting (as either buying demand or selling supply will prove to be dominant and move the price accordingly). The scalper is always watching for the point where the situation changes - such as when the price makes a sustained move above near term resistance or below the prevailing short term support.

The scalper typically focuses on shorter term time frames in his or her charting setup. Perhaps utilising one or five minute periods, though they may also reference 'tick' charts as well. They will use indicators that highlight short term changes in momentum. For example a pair of Moving Averages (or MAs). One set to measure say 30 periods of activity, with another set to a shorter periodicity of say 10 periods. The movement of the shorter term MA relative to the longer term version, can provide an insight into what's happening in a given instrument and to the direction in which it should be traded in. Successful Scalpers will have their own preferred set of indicators and chart time frames. Some of which will be quite complex and difficult for the uninitiated to interpret.

However we can view a more straightforward scenario to get a flavour of what Scalpers are looking for in terms of trading opportunities.

In the example below, of a fifteen minute Dollar Yen chart. We can see the 10 period MA or Moving Average line, in yellow, crosses above the slower moving 30 period line in red. As it does so, the price in the pair starts to trend higher. Note also that the price had failed at or around the 30 period MA line. Indeed it had fallen back through that line on a previous attempt at a break higher. That move higher resumed, with more success, once the 10 period line had crossed above its 30 period peer.

Scalpers will be watching their screens for just this sort of opportunity, spending many hours a day doing so. As such they

need to be able to concentrate for extended periods of time and avoid distractions. They also need to be highly disciplined when it comes to closing losing or non profitable trades, as their strategy relies on making a high number of trades in expectation that their P&L from winning trades will offset and exceed that of their non-profitable transactions.

Swing Traders

Swing Traders adopt a different approach to the market to Scalpers. Particularly in the time scales they operate under and the frequency of trades they make. A Swing Trader is typically looking to capture a mid-term trend or move, once that trend has been confirmed.

Unlike the Scalper, the Swing Trader is happy to miss out on a few ticks or price points as a trend emerges, if that means they can trade this trend with additional confidence later on. That said they will look to capture the majority of a move, over say an intraday or intra session basis, be that in Asia, London or New York.

They may well use a resting order to enter a trade. For example 'a buy on stop' order - which is an order configured to execute at a predetermined price. Albeit one that is worse than the current prevailing price, available at the time the trade is entered into their system. That choice to execute at a worse price point will be a function of the Swing Trader's confirmation criteria. With the trade set a certain number of pips above say a previous period high. A consecutive series of higher highs and higher lows being the very definition of an uptrend. Swing Traders

may also choose to scale into or add to a position, should they believe that trend is set to continue to move in their favour. For example, when a series of period highs, let's say the 1, 5 and 10 minutes peaks are beaten and restated in quick succession. Such price action is often described as momentum, in this case upward.

The Swing Trader will in all likelihood have set a stop loss as they enter a trade and if possible, will look to move that stop loss up behind a trend that is moving in their favour. With the intention of locking in a profit once the stop is raised above the entry price (in the absence of any slippage on the closing trade). They will then attempt to run that position, or a portion of it, for as long as they can. Like Scalpers, Swing Traders tend to be intraday traders and would not typically carry overnight risk. Often preferring to square off their positions at the end of the day. Or if they do retain a position overnight they will frequently scale back that position to a fraction of the original order size.

The chart below shows a developing downtrend in Cable or GBP USD between the close of the 18th of July and the early morning session of the 19th July 2016. The blue horizontal line denotes an area of support which had been active on the 18th, but which failed convincingly early in the morning of the 19th. The sustained breach of that support is just the sort of confirmation that a Swing Trader might look for, before entering a position. The red line in the chart signifies the top of the emerging downtrend, tracking as it does a distinct series of lower highs. This downward momentum would likely keep the Swing Trader in any short position intraday, or until such time as a contradictory signal is generated.

The Swing Trader may make only a handful of trades a day and may leave stops and limits working in the market. If these are not triggered then they may not trade at all in a particular session - meaning that they are not slavishly tied to their screens as their scalping counterparts are.

The discipline of Swing Trading is being able to stick to your strategy and waiting for confirmatory price action or signals before jumping in. Once in a trade you need to maximise your return, judging how strong a trend is and what its duration may be. Whilst at the same time considering what information would cause you to change your mind, managing any stop losses or resting orders accordingly.

Positional Traders

Positional Traders are by nature longer term. Taking views on the market that may extend over weeks or even months. Unlike their Scalping or Swing Trading peers, Positional Traders are more likely to be influenced by fundamental research, rather

than the chart driven technical analysis favoured by the other two styles. Given the long term nature of positional trading this is often the preserve of professional or institutional traders (though not exclusively so) who have larger pools of capital, that they can commit to the market, for extended periods of time.

Positional Traders look for patterns in economic data and indicators. For example rising or falling unemployment numbers or variations in industrial production figures. They may then compare that data to similar figures from another economy and formulate a view as to how their respective currencies should perform against each other, if these trends or deviations continue.

Indeed many Positional Traders will go so far as to build and operate a model, to allow them to make predictions about what the effects of future data releases are likely to be. Positional Traders will also be responsive to other macro or top down factors, such as changes in sentiment amongst money managers, investment banks and hedge funds. Whose billions under management, recommendations and reputations have the ability to significantly move markets.

Positional Traders often take the view that the market has mispriced assets or misunderstood how a given situation will develop over the coming weeks, months or perhaps even years. They take a longer term position in the expectation that their view will prevail.

Although often contrarian in their approach, Positional Traders are not averse to following a long term trend. For example the

continued rise of US equity indices, despite a series of mixed US economic data in 2016 and no return to normalised interest rates in sight.

In these kind of circumstances, the Positional Trader may well have hedged their position, or diversified their exposure,to protect themselves in anticipation of a possible correction. As with Swing Traders, Positional Traders will use a stop loss as part of their money management strategy. But this is likely to be set at a larger distance away, either as a percentage or monetary value, than that used by a Swing Trader. This allows for the natural ebb and flow of the markets, over the lifetime of their positions. Positional Traders are by their very nature not screen watchers and may spend more time reading, researching and thinking than they do trading.

The chart below of USD JPY or Dollar Yen highlights exactly the kind of opportunities that Positional traders are looking for. Firstly from the summer of 2012, the Japanese Yen consistently weakened against the US dollar thanks to a combination of Japanese monetary policy, a stronger US dollar and a determination by the new Japanese government to stoke up inflation in the world's third largest economy. Yen weakness persisted until November 2015, when we saw a clear change in sentiment and therefore trend emerge.

Markets became risk averse and remembered that the Yen was still a reserve currency or safe haven. They started to close their short positions and to actively buy the Yen. As we can see in the highlighted area (next page) the Yen strengthened by almost 20% in a matter of a few months, following that sea change.

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TWO: TIMING IS EVERYTHING

As we noted above different trading styles make different demands on your time and personal circumstances. For example if trading is something you do or want to do in addition to your full time job, Scalping may not be for you. As it involves spending prolonged periods of time sat in front of your dealing screen, focusing on the markets, which is very likely to conflict with your day job and upset your boss.

In such circumstances you may have an opportunity to focus on the markets at the beginning and or the end of the working day or week. As such a Swing Trading or Positional approach may be more appropriate. You can study charts or other research, leave your limit or stop orders working and only need to check the markets as and when a trade is executed or you receive an alert.

A brilliant trader, even a part time one, is realistic about what they can achieve, given the resources available to them. Of which time is clearly one. If you decide to trade after you have finished the 9 to 5, can you do so undisturbed? Or are there other demands on

your time? Once again we need to realistic about what's attainable and practical on an individual basis.

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THREE: USE THE RIGHT INSTRUMENT

Baring the prior points in mind, the amount of time and the time of day that you can commit to trading will play a role in deciding what to trade. True the Forex market is open 24/5 and many other instruments now trade outside of normal market hours.

However the reality is that currencies and indices are regionally centric. That is to say they generally experience the highest levels of activity and liquidity in their native time zones. The further the trading day moves away from that the less likelihood there is of a meaningful and sustained move.

For example the Aussie Dollar is most active in the Asian trading session, whilst the US S&P 500 equity index becomes most active when New York markets are in operation. So if you do choose to trade the end of a European working day, Asian centric instruments may not be the ones to focus on. A successful trader understands the instruments he or she trades and is aware of the drivers of price action, items on the economic calendar that can affect those instruments and the optimum hours in which to trade.

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FOUR: UNDERSTAND CORRELATION

An understanding of correlation is also an essential part of a successful traders armoury. Correlation defines the relationship between two or more variables for example currency pairs or perhaps stock indices. The degree of correlation between two variables tells us what effect if any a move in the value of item A will have on the value of item B. Degrees of correlation are usually expressed as a percentage or ratio, which can be positive or negative in value. Furthermore correlation itself comes in three distinct flavours which are:

Positive; in which a change in the value of A will be followed by change in the same direction in the value of B. Negative correlation; under which a change in the value of A will be followed by a change in the opposite direction, in the value of B. Non-correlated; in which A and B share no mathematical relationship and therefore a move in the value of one will have no effect on the other.

Note also that correlations between instruments will vary

over time. Such that a correlation that exists today may look dramatically different in a few weeks time and that correlations can vary significantly depending on the periods measured. For example a 15 minute correlation measurement will invariably give very different results to a daily study conducted between the same instruments.

An understanding of correlation allows a successful trader to avoid duplicating positions, exposure and risk within their portfolio. For example if a trader has three or four individual positions in separate instruments open in his portfolio, he could appear to have diversified his exposure, or if you prefer, spread his risk. However, if those instruments are closely correlated (all likely to move in the same direction at the same time) then the exact opposite may in fact be true.

The are various Forex correlation calculators available online to help you keep track of these key relationships.

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FIVE: SET A RISK REWARD RATIO

Another key factor to successful trading is an understanding of risk and reward and their relationship to each other. Trading is by its nature a risk taking business but the successful trader tries to quantify the risk of every trade they make. At the same time they try to slant the odds in their favour so to speak, or at least to limit the downside potential of a trade wherever possible. An example of this behaviour would be the Scalper scratching or closing non-performing trades in a timely fashion, or the Swing Trader moving his stop loss up to or above the entry price in a trade. A successful trader will only enter a trade in which they have a strong expectation of making a return or profit. Furthermore, they will expect to receive a profit or reward that is a multiple of the money or risk that they committed to trade.

Forex and CFD trading is a leveraged business which means that a small deposit is effectively multiplied by your broker, to allow you to control a much larger position in the instruments you trade, than would otherwise be possible. This leverage or gearing can be a powerful tool in a successful traders armoury and can allow

traders to attain their desired risk reward ratio (returns) from their trading activities. But remember that whilst leverage can and does magnify profits it also does the same thing for losses. Therefore it's very important that you fully understand how this leverage works and have a healthy respect for its application before you commit fully to live trading.

Much has been written about risk reward ratios and the most appropriate level for them to be set at. In truth this will vary by trading strategy, style and instruments traded. But for the majority of traders - apart from the most skilful and active of Scalpers or High Frequency Traders - a risk reward ratio of at least two, if not three to one is probably appropriate. That is to say that if you are prepared to risk US$100.00 on trade then you should only do so when you are most likely to see a return or reward of US $300.00. By adopting this approach, traders will trade only when they believe the odds are in their favour and avoid burning through their hard won capital on less advantageous trades.

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SIX: MONITORING WIN LOSS RATIO

A close companion of the risk and reward ratio, the win loss ratio is a division of the number of winning trades a trader makes by the number of losing trades over a given period of time. On the face of it you might imagine that the successful trader will always have a positive win loss ratio (more winning trades than losing trades). For many successful traders that will be the case. However, it is possible for a trader to make money overall, even if they have a negative win loss ratio, as long as the profits that they make on their winning trades are larger than, or a multiple of, the losses made on their losing trades.

For example if a trader has made fifteen trades in total over a week - ten of which are losing and five winning trades. He has a negative 2-to-1 win loss ratio. However, if the cumulative losses on the ten losing trades amount to $1000, whilst each of the five winning trades has returned a profit of $400, making a total of $2000, then the trader will have made a profit over that week. He or she will probably want to reduce the number of losing trades going forward if possible, so as to optimise their returns and

risk reward ratio. But I hope you can see from this example the principles under which a successful and disciplined trader can stay in the game and grow their capital even when making a number of losing trades.

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NINE: RETEST ASSUMPTIONS

Having created your trading strategy and decided on your trading style you may well have decided to put it and yourself to test in the live trading environment. With any luck the hard work you put in on the demo account honing your strategy will serve you well.

But let's not forget that the markets are a fluid and almost living thing. They constantly evolve as they react to new information, changes in sentiment and capital flows. It follows therefore that our strategy and approach to those same markets will need to adapt and evolve over time as well.

What works today may not be effective in a month's time for example. To keep up with these changes or ideally ahead of them. We need to constantly test the assumptions that make up our trading strategy or outlook, to make sure that these are still valid and fit the background data and price action. This means being aware of major economic data releases and geopolitical events and meetings. In particular you will probably want to familiarise yourself with any variations in the data (good or bad) from the

markets expectations for these events.

The Blackwell Global Economic calendar can help you to track and filter key events that matter to you and the market expectations for those events.

Deviations from consensus forecasts can and do change market sentiment and therefore market prices. We need only look at the effect that an unexpected leave vote in the UK's recent referendum, has had on the value of GBP USD to confirm that fact. That's an extreme example but one which will have given many traders pause for thought and caused them to amend their trading strategies.

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TEN: BE OPEN TO NEW IDEAS

Successful traders always try to maximise returns from the strategies and ideas that they know, from experience, work for them. But they are always ready to consider new ideas and approaches. They may not adopt these new ideas but by being aware of them they are less likely to be taken by surprise if they become widely adopted. Earlier in the book we examined the dramatic change in sentiment surrounding Dollar Yen that was seen in the closing weeks of 2015, which ultimately continued into late June 2016. The warning signs around significant changes both in sentiment towards the Yen and the markets attitudes towards risk, were there for all to see in late 2015. But only a savvy few read them correctly.

The rest of us had to wait until late January and a significant 'gap lower' in Dollar Yen to fully recognise what was happening and how much attitudes to the Yen were changing. Whilst it would have been great to have been an early adopter here, the most important thing from a successful traders point of view was to recognise and be receptive to the clear change in attitudes

towards the Yen at the start of February 2016. As signified by the gap in the middle of the daily chart of Dollar Yen below, if you had stubbornly stuck to the prior yen weakness viewpoint you would have come off very poorly. Pragmatism and knowing when to change your view are key skills employed by many successful traders. These traits echo the famous quote from the economist John Maynard Keynes who said that: 'the markets can remain irrational longer than you can remain solvent.'.

To summarise, being a successful trader is about mastering a variety of skills and knowledge. It's about setting realistic and achievable goals and finding a trading style that works for you. A successful trader has a sensible attitude towards risk, reward and leverage. Together with the discipline to put that approach into practice every time you trade. The successful trader will regularly review their performance and re asses their trading plan or strategy. They will be pragmatic, open to new ideas and information and prepared to adapt their approach as required, as they to seek to first preserve and then grow their capital. In the end successful trading is about developing good habits that over time should become second nature.

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WHY BLACKWELL GLOBAL?

We can't pretend that is easy to become a successful trader. But we are here to help and support you as you make your trading journey, providing dedicated resources such as our demo trading accounts and regularly published research materials.

Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

Today, the Blackwell Global group of companies has a presence in over 90 countries, with its main offices situated in the individually regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

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