

TRADING FOR PROFIT



THE GENIUS HABITS
OF 3 SUCCESSFUL
TRADING PROS
THAT YOU CAN
START APPLYING
TOMORROW



**Trading for Profit: The Genius Habits of
3 Successful Trading Pros
That You Can Start Applying Tomorrow**

Introduction

In our latest report, “**Trading for Profit: *The Genius Habits of 3 Successful Trading Pros That You Can Start Applying Tomorrow***,” we’ve gathered together three very successful traders (Adam Mesh, Michael Ryske, and Chuck Hughes) and have persuaded them to divulge the stories behind their achievements. This report has been titled “**Trading for Profit**,” as it contains expert knowledge from three vastly intelligent traders that have found wealth and success in various financial markets.

Throughout the three interviews, you will discover professional trading information concerning the fast paced Options market, the long-term and short-term aspects of Day-trading and Swing trading stocks, and even the high pressure environment of volatility manipulation. We asked each trader how they got started in their respective markets, what challenges they faced, and how they overcame them to find ultimate success and wealth. We also queried them on what was next on their horizon, and what the most important lessons and challenges they faced along the way were.

Their answers will reveal professional trading techniques, the software that’s utilized to achieve ‘larger than average’ gains, and unique ways of overcoming trading roadblocks that traders face every day. Our goal is that you identify trading ideas that you can incorporate in your daily routine to achieve greater success.

We are pleased to share this report with you, and we hope you find it to be worth your while.

The Trading for Keeps Team

www.tradingforkeeps.com

Featured Traders



Adam Mesh started out as a day trader in the 90's while electronic trading was first beginning to revolutionize the markets. In 2000, Mesh launched his first trading company with three others, Chimera. In 2003, Mesh was a contestant on the NBC *Average Joe* television show, giving the public a rare sneak peek into his trading lifestyle. Following the show's finale, Mesh was inundated with appearance requests and questions. In 2006, Mesh left the private sector and started his first stock market newsletter, following up it a few thousand subscribers later with his best-selling *The Average Joe's Beginner's Guide To The Stock Market* and *Executive Stock Market Coaching Program*. Mesh's newsletter is now bursting with

300,000+ subscribers and has coached over 3,500 traders. Mesh continues to forward his core belief that **Nobody Cares More about Your Money than You Do**.



Michael Ryske trades mostly in the futures and swing trading stocks markets. He hails from Kalamazoo, Michigan. Michael got started trading in 2002 while pursuing a business degree in college. He began working with NetPicks in 2008, educating traders and training others in the usage of his company's trading systems, such as the Seven Summits Trader (SST). Michael continues to trade and mentor with NetPicks in Kalamazoo to this day.



Chuck Hughes, a former U.S. Air Force and Commercial Airline Pilot, used his downtime to learn how to trade stock indexes with systems. He liked system trading such that he developed his own trend following system that has garnered him \$5 million in trading plus 7 prestigious International Trading Contest titles. Chuck is also an author credited with numerous books, including The Guaranteed Real Income Program, The Fail Safe Financial Program, Market Volatility Profit Secrets, The Wealth Building Formula, The Global PowerTrend System, The Wealth Creation Alliance Course, Stock Market Magic, The Wealth Building Business Course, Sure- Thing Profit Secrets, Weekly Option Winners and Ultra Safe Money Strategies.

Meshing with Reality



Adam Mesh

Interviewer:

Okay, so Adam, for the first question, can you please tell me what your background is and how you got started as a trader?

Adam Mesh:

I started trading in 1997, as a day trader. At that point it was very competitive and the market actually wasn't good. There were 50 people in my group at the time, and only six made it. At the beginning I struggled, but what I did was I went around to the best traders, I picked their brains, I asked questions. By the year end I'd been given the award for "Most Improved Trader."

I continued to trade like that, and eventually switched firms and started trading my own money. I then, with three other guys, started a trading firm where we taught other people how to trade our money. At one point, we had over 100 traders trading our money, where we assumed the risk. I was the partner in charge of teaching them how to trade.

In 2006, I was away in Hawaii. I was actually on my honeymoon. I kept having to run from the pool, where it was 80 degrees outside, to the air conditioned business center where it was freezing, just to manage my positions. I ended up losing \$50,000 because I wasn't sitting in front of the computer.

At that point I thought, "I want a lifestyle to go with my trading." I don't want to have to sit in front of a computer all day every day, and I don't make money if I do. That's when I made the change to swing trading, and swing trading is where you manage positions for days, weeks, or months.

It ended up being a good thing, because at that point, that's when the black boxes and automated programs started coming in. It made day trading almost obsolete, because you couldn't get in and out of positions for two minutes, because the fluctuation with the computers made it too difficult.

Swing trading became even better, and that's what I've been doing for the last seven years and teaching. That was the other fallout of making the change from day trading to swing trading. I was allowed to have more free time, which is how the company got started.

Interviewer:

Do you trade equities or options, and can you tell me a little bit about what's unique to each market and why you prefer to trade those?

Adam:

Sure. I made my living and earned my reputation as an equities trader. That's where I was featured in Fortune magazine three consecutive years. The first, Nelson Schwartz is a prominent writer, now he's for the New York Times, stood behind me and I made almost \$20,000 in 20 minutes, with Nelson standing behind me.

That was really good credibility for the stock trading. A year later, they did an article called "Can't Keep a Good Trader Down." The market was weak, but our company was still thriving, flourishing. Then a year later, they did another follow-up.

When I started a newsletter business-and that's a whole other story I guess we'll get to-my reputation was built into stock. For a while, I refused to teach options. I even used to write articles that said why I preferred stocks versus options, and I would highlight the benefits of stock.

Eventually, I did get involved in the option market. I met up with someone who encouraged me to try some specific strategies. Options are new to my game, but I've actually been using that and doing well with it.

The person who taught me options, I brought on to run my options program. As a company, we teach both stocks and options. As an individual, I trade both stocks and options.

What's unique about stocks is you're in the company, and you can really manage the position. It trades very true. Unlike options, which is always premiums to be paid and discounts, with stocks-and you need more money to trade stocks-when you're trading stocks, you get involved in equity and you look for your trade. It's pretty much cut and dry, which I like. It's simple.

With options, there are a lot of different variables. A lot of times you hear about unusual options activity. The allure of options, the reason why people would choose options, I would think, is it's more cost-effective. You don't need as much money to trade with.

Sometimes you'll see some fluctuations that aren't consistent with the stock. As an example, let's say I was trading First Solar. If First Solar went from \$40 to \$60, I make \$20 per share. It's a 50% gain. If I was trading the options and time hadn't elapsed yet, well, then there's still a premium built in. If I want to sell, I'm not getting that full gain.

If I went from \$40 to \$60, that's 20 points. In options it won't necessarily be that full gain, and then you have to find which options market to pair it with, because there are different time frames. It becomes a little more complicated if you don't know what you're doing.

When it comes to options, there is a strategy I found that I enjoy. It's something that you can't do in stocks, which is selling in the money products. I found I can make consistent money in that. The main difference is options, you need less money, but it's a little bit more complicated. Stocks, it's easier but you probably need a little more money to get started trading it.

Interviewer:

What style of trader would you consider yourself today?

Adam:

I consider myself to be a swing trader. I manage positions for days, weeks, and months. The best benefit of that it is emotion-free trading.

Interviewer: The next question. This one might be a little bit redundant, but what is distinctive about how you trade, and what makes you successful at it?

Adam: Okay. What's unique about the way I trade is I keep it simple. I'm a big believer in anything you do in life, whether it's a diet or exercise or trading, that the key to success is consistency.

Example, if you go on a diet that's a cleanse, and you don't eat solid food for two weeks, that's great, you're going to lose weight, but there's no way you can continue that for the rest of your life. Eventually, it will become undone.

If you're exercising, and you train for a marathon and you run the marathon, but then you don't run for the next three months, you're going to gain weight back. If you're trading and you have this rigid formula for trading that takes hours upon hours, you're going to have some success, but as soon as you don't have the time or you don't stick the formula, it's going to become undone.

What's unique about me is I keep it simple enough to be repeatable, and that consistency is what makes my traders and I successful. That's the most important thing, creating a system that you could repeat effortlessly.

I think what everyone enjoys is, I make it simple, but it works.

Interviewer: Do global events affect your trading, and if so, how?

Adam: Global events create opportunities. I don't speculate. I don't say "I think the market's going to go up, I don't think the market's going to go down." I look at technical levels. I'm a technical trader.

I want to react quickly to what the market is showing me. As a technical analyst, the market gives you information, you take it, you react quickly, and you trade. If something happens globally, that's more of a fundamental event.

It won't impact my trading, but it could impact my trading results. Those kinds of fundamental events will create opportunities within the market, and by reacting quickly, I'm going to take advantage of them.

Interviewer: What do you do to protect your portfolio? Do you use hedges, or what sort of a strategy do you employ?

Adam: When you're managing your own money, you want to be responsible, and you want to put a big chunk of that money aside in something like a mutual fund that's conservative, that you know won't move that much.

When it comes to my personal trading account, that's intended to be aggressive. I want that to outperform everything else going on. Now, it's going to be less dollars in my own trading account than my mutual funds, but I believe I can beat it and I have beaten it, not only percentage-wise, but dollar-wise.

Meaning you can have \$500,000 in a mutual fund, and if you make 7% for the year, that's a \$35,000 gain. Mutual funds will pat themselves on the back, they'll be very happy with it. As an individual trader, you can have \$50,000 in a trading account, make 90% because you're trading aggressive, and not only will you make a higher percentage, but you'll actually make more dollars with an account that's worth \$50,000 than \$500,000.

Then for me, that's exciting. That's what I've seen happen, that's what I've tried to teach other people to do. When it comes to how do I protect myself, as before, I'm not hedging. The one thing I do, to manage it well, is I trade individual momentum stocks, and I limit the number of positions I trade. I'm always trading between two and three positions at a time. I trade small amounts of positions, focused on them, but I'm not using hedges, because it's meant to be aggressive.

Interviewer: Okay. Let's talk about volatility right now. What do you like about trading volatility, if you do?

Adam: Volatility creates opportunity. I equate that to the ocean. If you're someone who's never surfed and you see a scary wave, you're going to say "I'm not going anywhere near there." If you've learned how to surf and you've surfed your whole life, those are the waves that you wait for. You can't wait to get out there.

It's the same thing with trading. If you don't have knowledge, you don't have confidence, you see scary markets, and you want to run away. If you're trained in how to take advantage of these markets, then when you see that volatility, you see opportunity.

Interviewer: Are there any factors that are tricky about trading volatility, and how do you use those to specifically profit?

Adam: When it comes to volatility, it becomes tricky if you try to interpret the news. When you see that Greece might be banned from the EU, and you're trying to determine how that affects the market. If you're trying to figure that out, you're going to have problems.

If you're trying to interpret earnings reports or the latest job numbers, and trying to make sense of them, it's going to get very confusing. But if you react quickly to the market, well then, you're going to create opportunities.

The one thing that could really be tricky even in that sense though is the more news there is, the more back and forth there is. Trying to determine what a clear and decisive move is gets a little more complicated with more news.

When I think volatility, I think news. Volatility itself creates opportunity, but if you're seeing a heavy back and forth, then it means, instead of trying to be more aggressive, you've really got to tighten up, trade smaller positions. Knowing how to trade within that volatility is what can be tricky.

Interviewer: You kind of touched on it earlier when you were discussing mutual funds, but what sort of money management techniques do you use?

Adam: When it comes to me as an individual, and I'm not a financial adviser or anything like that, I always tell people this is what I do. I put a lot of my money away in conservative places where I look for it to grow consistently, it's not going to be a big return.

I also wouldn't feel comfortable relying on just that to secure my future. Individually, I trade an account with less money where I can be more aggressive. I want to make higher percentages, and not just higher percentages, but have the actual dollar amount in those smaller accounts outweigh the bigger accounts.

Interviewer: Okay. For my next question, how important to your trading and training is psychology? Can you give me an example of one specific instance where you've had a lack of control of your own trading psychology, and it's caused you to lose money?

Adam: Sure. Psychology and trading is, you'll either learn the pain of discipline or the pain of regret. I'd rather learn the pain of discipline. The best way to eliminate emotion from your trading is through stepping away and swing trading.

When you get more involved, the biggest thing that can affect you as a trader, if you have your plan, and cause you not to stick to it is emotion. If you get emotional, which is part of the psychology of trading, you're going to have instances.

That was always a weakness of mine as a trader, especially when I was day trading. Because I could always make good money on good days, but if I was having a bad day, I would be unable to accept that loss. I would try to dig out of it and trade harder. I would end up turning a small bad day into a really bad day.

That was because I didn't control my emotions, I didn't accept losing. One of the big things I learned for myself, and especially to teach others, is accepting losing as part of trading is going to make you more successful.

In terms of a specific example, there was a stock once that a doctor told me about that he said was going to be the Microsoft of bio-tech stocks. It was under \$2, which is one of my rules. I don't trade stocks under \$10

The story sounded so good, and I just kept buying more and more and more. In my head, I wasn't trading the stock anymore, I was trading the idea of where I was going to spend all that money.

They passed their phase one and phase two trial, but they failed their phase three trial. I ended up losing \$180,000 in the trade. That, getting away from the analysis and getting involved based on just what I think would happen to the stock, definitely cost me a lot of money.

Interviewer:

What has been your biggest success in trading?

Adam:

My biggest success trading. Pretty much starting from the point where I was 21 years old, I used the market as a vehicle to pay for everything that I have in life. It was a job that I loved. They say if you find a job you love, you never have to work a day in your life.

It was something that I was able to be above average at. I was very good at it, and when you find something that you're good at and you embrace it, it gives you enjoyment. Then in terms of being able to teach other people how to do that, because teaching by itself is a completely different vehicle. Some people could be great teachers but they can't trade, other people could be great traders but they can't teach.

The ability to be able to have success trading and show other people how to emulate that success has been something that I've been very proud of.

In terms of individual days, I'll also say, they always say, as a trader, you want your best up day to be better than your worst down day. I told you that I lost \$180,000 in a day. I came in and I made \$220,000 in a day. That was my biggest monetary trading success.

Overall, I'd say having found, in these last seven years, the discipline to trade without emotion has led to the most consistency I've ever had.

Interviewer:

That kind of rolls right into the next question. Would you say that's the best lesson you've learned as a trader? Or do you have a different lesson that you...?

Adam:

The best lesson I've learned as a trader is, again, to keep emotion out of the equation. Never go based on what you think, only go based on what the stocks are showing you. Keep the positions small enough that they're manageable.

The best lesson I've learned is that if you're going out with positions and you're losing sleep over it, or you can't take your eyes off the computer, then forget everything else there is. You have too much.

Because if you're trading methodically, and you're effective and you're trading within your comfort zone, you're not going to think about it outside of just acting out the trades. The control I've gained, learning to control myself as a trader and manage the way I trade so that it's a lifestyle, is the best lesson I've learned.

Interviewer:

What do you think the number one reason is that certain traders fail?

Adam:

Because they can't be consistent. Either they have information overload, so they keep changing what they're doing, or they become so overwhelmed that they just stop. When people try something and they commit to it, they're going to be successful, at least moderately.

When they start and then stop, or they just create something where they're constantly changing, I think that lesson, in terms of, it's why people fail in business, too. If you find something that works, it's not supposed to be exciting. It's supposed to be consistent, and you want to keep doing it.

If you're in life and you have a business that's working, and you're selling t-shirts, and all of a sudden you say, "I'm going to go into the jewelry business," and you start losing money, well, you changed. You tried to keep re-inventing the wheel. You were creating information overload.

Likewise, if you have this plan to sell t-shirts and you're doing it, and then all of a sudden you're like, "I don't want to pay for marketing anymore," and then your sales go down, then you're not being consistent. Consistency, a lack of consistency, is the number one reason why traders fail. Whether it's information overload or just stopping and not following through.

Interviewer:

What made you decide to become an educator?

Adam:

It's weird. I don't consider it my decision. I really feel like I was called upon. I had gotten a lot of exposure on television. I was on a show on NBC, and 30 million people watched the finale. On that show it had the Fortune articles in my apartment, which they showed.

The show was actually a dating show, but the reaction by everyone who watched was to say, "Wait, how do I make money in the stock market?" I had thousands of people emailing me, trying to call me, asking me, "Teach me about the stock market."

That's how I started the newsletter. Literally, as soon as I opened up the newsletter, there were 1,000 people subscribing within seconds just because it had been building up. It really was fate.

I was always a trader. I was asked to teach people by the people, and I responded. Life events fell into place.

Interviewer:

What is one piece of advice you would give a novice trader that's just starting out?

Adam:

I would tell them to start small and get proof of concept. You have to earn the right to trade big. Take money that you're going to use to trade with. Don't let it be money you have to pay the rent or anything like that, because you want to be able to be consistent.

Start small, get proof of concept, grow from there, and create a plan that's going to allow you to be emotion-free. You also want to set goals after a couple of weeks, what you've learned. Then evaluate that goal and modify them after a couple months.

Interviewer: What about for an experienced trader?

Adam: It's not about making money every day. You can't evaluate your P&L on a daily basis. Everyone thinks, "Well, if I just make \$500 that's \$2,500 a week, \$10,000 a month, \$120,000 a year." But there's going to be days where you have to accept losses.

If you created that habit, you have to remember, if you're learning how to play golf for the first time, it takes 100 repetitions to learn a swing correctly. It takes 10,000 repetitions to unlearn a bad habit.

If you feel like you've created a bad habit, work to fix it. Identify what the problems are and work vigorously to correct. Whenever you feel like you're overwhelmed, this is for experienced traders especially, lower the number of positions you're trading and the amount of position size. That will help get it in perspective right away. Lower the amount of positions you have, and the size of those positions should be lowered as well.

Too many people try to work their way out of trouble by trading bigger. The correct thing to do is trade smaller.

Interviewer: For the final question, what is next on the horizon for you?

Adam: Over the last seven years, I've been building and growing this newsletter business, from the first thousand people joined to now, with over 300,000 that receive my daily email.

I'm a micromanager, I read every email. Because I've done it in a way that everything is thorough and people have a high quality experience, I think that I've created a brand. I believe I've created a quality brand that people associate with success.

Looking to slowly and effectively build that brand, and take this thing that we built that so many people believe in, and continue to provide next-level service with old school customer experience.

What I mean by "old school customer experience" is people want to touch people. They want to speak to people. They don't want to get computers, they want to get voices. They don't want to just lead things through the computer. They want to connect with you, and so...

That's what we've done here. To continue to grow and provide the highest quality service by maintaining a human feel, I think, is essentially the success of this business.

Interviewer: Where can traders go to find more information about you and your services?

Adam: AdamMesh.com. They can put in their name at adammesh.com, and they'll begin receiving my free newsletter.

Manipulating Risk



Michael Ryske

Interviewer: All right, Michael. For the first question, can you please tell me your background and how you got started trading?

Michael: Well, sure. I started back when I was in college, which was going on 11 years ago now, which is just amazing for me to think about. I was a finance major at the time, and during one of the first stock market projects that I did as a student, I started to see the profit potential in the markets. I was really fascinated by just how they worked.

Unfortunately, as a poor college student at the time, I didn't have any funds to profit from that with. Without waiting a couple years to get a job, I was determined to find a way to profit from the markets. That's when I stumbled across the option markets. What really fascinated me was the fact that I could sit there and control pretty decent-sized

positions with as little as a couple hundred dollars, on up to a couple thousand dollars. The great leverage that those products offered really opened a lot of doors for me.

Unfortunately, I had some success early on. The reason I say "unfortunately," it created some bad habits. I was trading around earnings. I had no system in place; I was just basically trading off of a hunch. I, like many people-many people can probably relate to this-I ended up giving all my profits back and then some.

After that, I had the chance to go down to the floor of the Chicago Board Options Exchange. Once I got down there, I quickly realized that the way a professional trader thought was night and day different from what I was doing at the time in the markets. They were thinking two, three, four steps ahead.

What I did, when I left that experience, I knew I had to take a step back and I had to establish a system that put the odds in my favor. Very much like the professional traders were doing. That's when I got home and discovered the NetPicks family of products. I was super happy with their approach to the markets, because they gave me defined entry and exit points.

Very similar to what I was seeing down on the floor of the Exchange, they gave me a defined edge, and that's what I needed. I've been using their products ever since. I've been able to trade full time for going on seven years now. Very excited about that; I just love everything about the markets. Just a little bit of background info on myself there.

Interviewer: You already touched on it, but can you tell me a little bit about what's unique to the options market and why you like trading it, typically?

Michael: Sure. I do trade equities and options. At this point I'm almost exclusively on the options side. What I figured out very early on, the options gave me incredible flexibility. There's a lot of other products out there that you can use, forex and futures.

The difference with the options is they're products that we can use to profit both from bullish markets, bearish markets, and the dreaded sideways moving markets. As long as the markets are moving, you can be profitable with many different types of products out there.

When you get into that slow-moving market, it can be tricky, especially when you get into the summertime months. Well, as a full-time trader, I need to be profitable consistently throughout the year. By using the options, there's strategies that we can use that actually thrive when the market's doing nothing. Nothing but move straight sideways.

When I talk about using options, it goes much further than just buying or selling a product. We can structure trades like vertical spreads or iron condors. Those are types of trades that work really well in specific market conditions. We're not just focused on buying a stock or selling a stock. We're actually focused on utilizing the correct strategy, and using the correct strategy for the given market conditions.

Interviewer: Okay, so what is distinctive about how you trade, and what makes you successful at it?

Michael: I think what makes me successful with my trading is the power of the NetPicks system. What's different about our system compared to a lot of others out there is the fact that we use range charts.

Range charts are very different from what most traders use. When most traders track price action, they're typically looking at a time-based chart. They're looking at tracking price action based on a set amount of time, whether that be an hourly time frame or a daily or a weekly time frame. That's what they're using to track the stock.

Whereas when we use a range chart-let's just use Apple for example. If I look at a range of six on Apple, we're printing a bar or a candle on our chart every time Apple moves \$6 from high to low.

That's very, very different, because when a time-based chart, if you look at a daily chart for example, that has to print a bar or a candle every day, regardless of price action. When the market's moving, that's fine. When the market slows down, those charts can get very tricky. They can get very messy looking.

When we switch back to a ranged chart, the ranged chart gets me through those choppy periods with a much better result. It definitely smooths out my equity curve. It's definitely a different type of approach to the markets.

It was a change that I made a couple of years ago, and it's made a huge difference as we continue to get into markets that are ever-changing. My system does a really good job of identifying those changes, and by using range charts, we're able to stay current with what we're seeing in the overall markets.

Interviewer: Do global events affect your trading, and if so, how exactly?

Michael: Well, it's definitely a true statement at this point. Just because I'm trading U.S. stocks and ETFs does not mean I'm immune to what's going on over in Europe, or in China or in Japan. Everything is so intertwined these days. You absolutely have to pay attention to what's going on all over the world.

The difference with my approach is I don't necessarily care what the news event is. I don't really care what happens. All I care is what the market's reaction to that news is. I hate to even bring this up, but if we have another terrorist attack, as much as it's painful to bring back those memories, if it causes the markets to move I can profit from that.

It's definitely to my benefit to pay attention to events around the world. As far as trying to track every headline that comes out throughout the day, not necessarily concerned with that. As long as it makes the market move, that's all I'm concerned with.

Interviewer: What do you do to protect yourself or your portfolio? I mean do you play hedges, or . . .

Michael: I do. It's a great question, especially coming off of the financial crisis, where so many people got hurt with the movement to the downside in the market. The reason for that is everybody is so programmed to buy and hold. Buy a stock and hold it long term.

Those days of investing, in my opinion, are done. It's important to be active in your trading. That's not necessarily saying that you need to be active intra-day. You don't need to be a day trader. But if you've got a portfolio of long stocks for example, it's important to use some type of protection, even if it's something as basic as buying a put option.

Well, a put option acts somewhat as an insurance policy against a drastic move to the downside. If we do get that terrorist attack that I talked about, if the market does decide to move 15 to 20% to the downside in a very quick fashion, you're not going to be hurt with that protection in place. You're limiting your downside risk.

I think it's extremely important for traders, regardless of your experience, to really focus on knowing the risk in your portfolio and making sure you're using proper protection against any event that may pop up.

Interviewer: Let's talk about volatility for a minute now. What do you like about trading volatility?

Michael: Well, volatility is especially important for options traders like myself. When people initially get started and get interested in the options markets, their initial experience is to buy a call when they're bullish and they expect a stock to go up, or buy a put when they expect a stock to go down.

It goes much deeper than that when we talk about options, because when you look at the pricing of an option, there's a lot of factors that come into play, the most important being volatility. Volatility levels can definitely affect the changes in an option's price. You may put on a call option with a bullish outlook on a stock; the stock may go up just like you expected. You come in and you say, "Why am I not more profitable?" Or, "why am I not profitable at all?"

The reason being, if you're not aware of certain levels of volatility, that's really going to hurt you. You really need to know, you really need to put some context around that volatility to know is it high, is it low? How do changes in volatility affect the stock?

There's some really neat strategies that we can employ with options that take advantage of that movement in volatility. We're not just focused on correctly picking stock directions; we're looking at volatility moves as well, which can be extremely profitable.

Interviewer: What would you say is tricky about trading volatility, and how do you specifically use it to profit?

Michael: It can be tricky when looking at volatility initially. Because you have to put some context around what the current level of volatility is. Let's walk through an example here.

Let's say we're looking at two different stocks. We go in and we look at the prices on the options on those two stocks, and they're both trading with a 40% volatility. We take a look at stock number one, and we look at that 40% volatility and we say okay, let's compare that to what we've seen over the past year. We go in and we say that okay, the range on volatility over the past year, on the low end, it's been 30%; on the high end, it's been 80%. We're currently at 40. We're at the lower end of the range.

What I want to do is I want to put strategies in place that will benefit from volatility expanding, because I know the way volatility works, it's always going to want to move back up to the average level. If we're at the lower end of the range, I'm expecting volatility to pop up. I'm going to utilize strategies that will benefit from that. In that case, if we're in the lower end of the range, I want to go ahead and focus buying options. Buying calls and puts, or buying vertical spreads. Those will increase in value if volatility spikes.

Now if we take a look at stock number two, which also has 40% volatility, let's say that that's at the upper end of the range. Over the past year, the high has been 50% and the low has been 10%. Well, if we're trading at 40% volatility, I'm expecting volatility to drop. I want to play strategies that take advantage of that.

In that case, I want to focus on the sell side, expecting volatility to drop. Just by looking at a simple example like that, both stocks are trading with 40% volatility, but are they equal? They are not. By putting some context around that, we're able to use volatility and use that as an advantage, and increase our odds of success.

Volatility, it's very unique. It's a very different way of approaching the markets, but it can also be very powerful. Produce some very powerful returns.

Interviewer: What kind of money management techniques do you use?

Michael: Money management, it's a very important topic. There's two parts to this. As far as taking an individual trade, it's very important to have a plan laid out. Have that trade plan in place, so that once you get into a trade, you know exactly how you're going to manage that trade.

What I'm talking about there, if you enter a position, you need to know where your target's at. You need to know where your stop is at. As you approach a target level, you need to have a plan of action. How are you going to reduce your risk? How are you going to lock in some profit?

A lot of times traders struggle in this area because they don't have that plan in place. They don't have that money management plan outlined before they ever get into a trade. The emotional aspect of trading will really start to kick in. What I'm talking about there is natural instinct. When you put your hard-earned money on the line, the minute you go into profit or the minute you go into a lot, natural instinct is to want to get out.

Well, if you've got a plan in place that you know puts the odds in your favor, you need to learn to trust that. You need to learn to commit to that. It's the only way you're going to see long term success.

Now, to take that a step further, you have to have proper money management as far as your overall account goes as well. One of the biggest issues I see with traders at the moment, people are trading way too big.

If you're sitting there with a \$5,000 to \$10,000 account, which is a typical starting point for a lot of newer retail traders, do you want to have half of your account at risk in one or two positions? That's way too large a risk. One or two losing trades can wipe you out, can really cripple you.

What you want to do is trade as small as possible. What I'd rather do as a trader is, I want to focus on hitting singles and doubles. As opposed to the occasional home run. If you can focus on trading small, keeping your risk very low, those are the traders that are around for the long haul.

Interviewer: How important to you is trading psychology? Can you give me an example of an instance where you've had a lack of control of your own psychology which has caused you to lose money in the market?

Michael: It's such an important topic. Along with money management, it's another huge issue that traders deal with. Because no one likes to lose money, the minute you start to hit a losing streak or the minute you get into a losing trade, that emotional aspect really starts to take over. You can get frustrated; you can want to move onto the next system or the next market. When really what you need to do is you're trading very small sizes, you're using proper risk management, it really starts to limit the effect of trade psychology.

What I have found in my own experience, when I first started in trading, I was just trading way too big. I did not have a plan in place, and as a result, I did not see the consistent results that I was hoping for. What I did early on—and it's made a huge difference in me becoming a successful trader—is I utilize a trade journal. I know it sounds a little silly initially, but it's been extremely powerful for me.

I document every trade that I take, entry points, exit points. Then I also give myself a grade, every day that I trade. I evaluate my performance and jot down, okay, what mistakes did I make? Then once I evaluate that at the end of the week and at the end of the month, I can start to see different patterns. I can see different areas where I may struggle in. If I can focus on improving those areas, it'll really help me stay disciplined to my overall trade plan.

A lot of traders, if you don't keep that trade journal, they can keep making the same mistakes over and over again. In trading it's a little different. We don't have a boss there that's holding our hand, that's walking us through step by step what we need to do throughout the day. We need to put those steps in place to hold ourselves accountable.

That trade journal has made a huge difference in my trading here over the last number of years.

Interviewer: What's been your biggest success in trading?

Michael: That's a great question. I think the biggest success that I have had is the fact that I've been profitable for the past six, going on seven years. In an industry where the failure rate is so high-I believe I saw the other day 95% of traders fail. The fact that I've been able to be profitable for the last number of years, it's an accomplishment. It's something that I'm very proud of.

It's been a long road. It's never come easy. Like any other job, it takes time, it takes effort, it takes discipline. But the fact that I've been able to be successful in an industry where not a lot of people are, it's something that I'm really proud of.

Interviewer: What is the best lesson you've learned as a trader?

Michael: The biggest lesson I think for me has been finding the markets and the system that fit my personality and fit my trade style. A lot of times, in working with traders on a daily basis, I see traders just chasing results.

What I mean there, if you don't have a market that fits your personality, that fits your trade style, you may be a type of person that likes to think through things and really process things before you make a decision. If that's the case, maybe day trading, where you have to make a split second decision, maybe that's not best for you.

There's so many different ways we can dissect these markets and make money from these markets. You really don't need to force something to work. If you're somebody that likes to process through things like myself, swing trading has worked out really well for me.

When I say a swing trader, I'm talking about holding positions anywhere from one day on out to two weeks. That way, the trades move slow enough where I can really process through my decision making before pulling the trigger, yet it's quick enough to where I can benefit from the quick movement back and forth in a stock.

If I could encourage the traders out there that are looking to become successful and become profitable, really focus in on finding the markets that fit you. Don't force a certain market to work. Even though it may be exciting, even though it may show a ton of profit potential, if it doesn't fit your style, it's really going to be a struggle for you.

Again, there's so many ways that we can approach these markets. Finding the market that fits your style, it'll make a huge, huge difference.

Interviewer: What do you think is the number one reason that traders fail?

Michael: I think without a doubt, not having that system in place. When I say a system, I'm talking about a system that gives you a defined edge in the markets. That gives you exact entry points and exact entry points.

For me, it makes a huge difference to have those set-ups printed right on the chart for me. I know a lot of people will load up ten different indicators on the chart and try to trade those indicators. I can't find success like that. I find it much better when I have a very clear cut plan in front of me.

I like to come in, and I like to get in and out in 20 minutes a day or less on my swing trading. That sounds a little far-fetched initially, but when you have a system—for me it's the active swing trader, that's the NetPicks system that I use—when everything is outlined for me right on my chart, I know exactly what I'm doing on a daily basis.

I can come in and take a quick peek at the chart, follow my system, and not have to worry about tracking every little price movement throughout the day. I'm not calculating targets, I'm not calculating stops. Everything's done for me. It's an incredible time saver.

I think the fact that people fail so often in this industry is really a testament to not taking the time to invest in a system, finding a system that works for you. If you're going to take the time to do that, you're going to be far ahead of many of the other traders out there.

Interviewer: What made you decide to become an educator?

Michael: That's an interesting one for me. What I said early on in my trading, as I struggled through the early years, "if I can ever become successful at this, if I can ever become profitable, I would love to be able to help other traders that are trying to do the same thing." I would've given anything early on to have somebody there who would walk right alongside me and say, "You know what, Mike? Let's hold off on making that decision. Let's hold off on making that trade. Explain to me your thought process."

Instead, it was very much me going through the school of hard knocks, and teaching myself things as we went. I think what I decided to do early on is say okay, if I can become profitable, I would love to work with traders. I want to improve on that overall success rate in the industry.

Not to mention, I learn a great deal from traders that I work with. I learn just as much from my students as they hopefully learn from me. I work with a lot of experienced traders that I get a lot of new ideas from, and a lot of new fresh ideas, fresh market ideas. It's a great experience for me to have that interaction with fellow traders, and I think it's really improved my overall trading results for me personally.

Interviewer: What is one piece of advice you'd give to a novice trader just starting out?

Michael: For a newer trader, I think it's to keep the big picture in mind. Not to try to force things to happen overnight. Everybody wants to get involved in the markets. They want to flip

that switch, and they want to see that overnight success. They want to see that account size double or triple.

If you can slow things down, trade small, trade as small a size as you can, I think you're really setting yourself up for long term success. It's just like any other business. It takes time. The first couple of years may be rough. It's going to be a lot of learning new techniques, learning new ideas. Really focus on getting that system in place.

I personally love the NetPicks systems. Not necessarily saying that's the only system out there to use. There's a lot of profitable ways that you can approach the markets. But having that detailed system that you can stay disciplined to is so very important. If you don't have that in place at this point, I would really recommend taking a step back.

Don't force it to happen. The markets aren't going anywhere. The markets are going to be here next week; they're going to be here next month. Take your time. Don't put any of your hard earned money on the line until you can prove to yourself that you can be successful with the system that you decide to go with.

Interviewer: What about for an experienced trader? What kind of advice would you give them?

Michael: I do work with a lot of experienced traders. The biggest issue I see with experienced traders, they get into this routine, and they get to the point where they see consistent profits on a specific market, but they're not necessarily open to change.

For a successful trader, you really need to be open to new ideas. The markets that I'm trading today are completely different than the markets that I traded a few years ago. You have to understand that markets change. Markets that are working today, probably going to be totally different from the ones that are working two years from now.

If you're open to change, if you're not forcing one approach to work, you're really setting yourself up for long term success. If you're successful in day trading for example, be open to adding some swing trading. Be open to adding some longer term trades. It's made a huge difference for me. I've seen my overall equity curve smoothen out the more I diversify my approach, both the markets and the time frames that I trade.

If you are an experienced trader, if you've seen success over the years, kudos to you. I would encourage you to stay the course, but also be open to adding different techniques and different markets down the road as you go.

Interviewer: For the final question, what's next on the horizon for you?

Michael: I'm really excited about where technology is going. It's come a long way since I started. The fact that we're able to trade from a mobile platform on an iPhone or an iPad, it just opens up so many doors. You're not locked into an office all day tracking the charts. You can trade anywhere you have an Internet connection.

That's extremely powerful. We can place trades in a few clicks of the mouse these days. It gives you a ton of flexibility. It gives you mobility. I can trade anywhere in the world,

which is extremely powerful. It's an exciting time to be in the markets, especially for the retail trader.

Not only technology, but new products are being released. With the new mini options that have come out, the mini options allow the trader to get involved in the markets for a tenth of the cost. I think that's huge.

It's a great time to be involved. The markets are moving great. I think the retail public will continue to gravitate towards the options markets, just due to some of these new products that are coming out.

We're currently in my favorite time of year to trade, as we head into the end of 2013 and into early next year. I'm really excited about the next couple of years. The market's at all-time highs. We know that things are moving, we know it's a great environment to be involved in, and there's a lot of profit potential there.

Really, really excited about what's in store. Like I mentioned earlier, I love everything about the financial markets. It's given me a ton of freedom, in both my professional life and my personal life. It's just a great way to approach the markets.

The Best Option:

Trading Equities at High Speed



Chuck Hughes

Interviewer: All right, terrific. We have Charles Hughes, and we are talking about stocks, options and how to potentially profit in the face of volatility. My first question is, what's your background and how did you get started trading?

Chuck Hughes: I started out as an Air Force pilot. When I finished my tour in the Air Force, I was a commercial airline pilot. Commercial pilots typically have 15 days off a month, and on those days off, I looked into trading to start a second source of income. Because the airline industry is notorious for being unstable, and you could face layoffs or bankruptcies or termination of your pension plan at any time.

I wanted a backup source of income, so I started reading books on trading and going to live seminars, and that was my hobby that I did when I was an airline pilot, because I could do it part time. Then I went on a medical disability with the airlines as it turns out, and I became a full-time trader at that point.

Interviewer: You trade equities and options. Tell me a little bit about what's unique to each market and why you like trading them.

Chuck: With the equities, I use a combination of technical and fundamental analysis to select stocks that have the best profit potential. Using that combination of fundamental and technical analysis, I can get a real edge in the difficult markets that we've had the last several years, because I can far out-perform the averages.

This two-tier approach has worked pretty well. I'm just looking at a snapshot of my brokerage account, profit/loss statements. Using this strategies in equities, right now I have \$419,682 in open trade profits with the stocks that I used a combination of fundamental and technical analysis. It's been doing well, despite the difficult markets, far out-performing the major averages.

I call these stocks that I use this selection criteria, I call this my super-portfolio. That's been doing pretty well. I also trade options, and options are very versatile. I use a high accuracy trade selection process to select options with the best profit potential.

This trade selection process has three steps. First I determine the price trend of the underlying stock, or ETF, using my trend following system. Then on any given day there could be hundreds of stocks in a price up-trend. I narrow that list down a little bit. I like to use confirmation indicators that confirm the price trend. I use on balance volume and I use the new 52 week

high list and try to narrow down that list with the stocks with the best profit potential.

Then I use the Keltner channels to select an entry point. They act as an over-bought, over-sold indicator. I can get a low risk entry by waiting for the stock to trade down to the middle or lower channel, and when it becomes over-sold, then that's a good entry point if you're going to buy a stock or buy an option.

If I'm going to buy an option, then I purchase, and in the money options with time value that's less than 1% of the stock price. When you do this, the stock only has to go up 1% to break even on the trade as opposed to say a 10 or 15% price move to break even. If the stock only has to go up 1%, then this greatly increases the possibility or probability that the trade will be profitable.

This has resulted in very high accuracy with my option portfolio.

Interviewer:

Yeah. What style of trader do you consider yourself?

Chuck:

I'm a trend follower.

Interviewer:

OK.

Chuck:

I have the open trade results on my website. With my advisory service, these portfolios are updated every day real time, and this is a snapshot as of November first.

If you look at the bottom, you'll see the stock portfolio has \$179,000 current open trade profit, 98.5% return. That's the result for this for my super stock portfolio. Then if you look just above that, second from the bottom, the option portfolio. That lists the open trade profit average return, 224.

I use the high accuracy trade selection process to make recommendations for that option portfolio, and then I use the super stock selection process for the stock portfolio.

Interviewer:

Do global events affect your trading?

Chuck:

No, not really. My trades are intermediate to longer term, so we take a long term perspective. Normally it doesn't really play into our overall long term objectives. Daily events may cause a loss that day in the portfolios overall, but for the most part we don't really pay any attention to the global events, we just simply follow our strategies and it's worked out pretty well for us.

Interviewer:

What do you like about trading volatility?

Chuck: The main benefit of course of volatility is you have higher option premiums. I'm a big seller of option premiums, so the more volatility we have, the more premium I get to sell. That's a big part of all our strategies.

Now, I have three volatility strategies, and if you go back to the trade results page there on the inner circle, I have three volatility portfolios. The first one is the put option portfolio, that's the third one down. That's a marry put [SP] portfolio. That has a \$90,000 open trade profit, average return of 55%.

Right below that is the buy right or covered call portfolio, and then below that is the option spread portfolio. Those are our three volatility strategies, and they've been working really well. You can see the option spread portfolio has an average return of 503%.

These three strategies, they're spread strategies, and they've been doing really well when there's market volatility. Because these can profit whether a stock goes up or down. It gives you a real edge in volatile markets.

Interviewer: Why don't you talk a little bit about how you approach the markets? I was reading in your bio about being agnostic on a host of interviewers?

Chuck: Yes. I like to, rather than try to guess which way a market is going to go, I'd rather just use my indicators and go with the indicators. If you use a simple trend following system, that'll keep you out of trouble if a stock starts to decline. You get a reversal in the trend, you just simply exit your position.

Interviewer: Do you use money management techniques?

Chuck: Yes. For stocks, we will exit a stock position if the stock drops 10 to 15% below our entry price. We give a little more leeway with options, because they're more leveraged. We'll simply exit an option position if it drops 25 to 35% below our entry price.

We also will exit, if we have profitable positions, we'll exit those in increments. Maybe a fourth or a third of the position at a time, we'll simply exit to lock in profits.

Interviewer: How important to your trading is psychology?

Chuck: It's not really that important. My trend following system is very simple and basic. That makes it easy to follow. If you maintain a discipline and use the money management, then you can be successful.

Interviewer: What was your biggest success as a trader?

Chuck: I guess my biggest trade was, I had a Google option spread, and I made about \$110,000 on that one trade.

Interviewer: What's the biggest lesson you've learned as a trader?

Chuck: Biggest lesson I learned was not to try to predict the short term price movement of a market. It's better just to follow your trend following system rather than try to predict the price trends.

Interviewer: What do you think the number one reason traders fail is?

Chuck: In my experience, the biggest factor is people will take trades that the risk is not limited. Like short puts or go naked with options. Taking a naked option position. Or if they're too heavily leveraged with futures or Forex. If you're leveraged 20 to one on a futures contract, which is pretty typical, if the market moves against you 5% or more you're wiped out.

If you're leveraged 100 to one with Forex or 200 to one, which is typically, it only takes a 1% adverse move and you're wiped out. I think most people get into trouble because they don't stick to limited risk trades. They risk more than the capital that they have in their account, and if you're a put seller, your put selling strategy could go along for six, eight, nine months, do really well, but it only takes that one time when there's an overnight event to wipe out your account.

I've seen that happen time and time again. In my advisory service and my own personal trading, I limit everything to limited risk trades, and you can't lose more than you invest.

Interviewer: It says here that you won not one but seven live international trading championships?

Chuck: Yes.

Interviewer: If you were such a successful trader, what made you become a mentor and an educator?

Chuck: Well, I've made over \$5 million trading, so I don't have to worry about money anymore. I'm happily retired with my six kids. I want to stay active in it, and I still enjoy trading and I still trade, but I like to be a mentor to give back to the community some of the fortunes that I've made.

I think I really made a difference in people's lives, their financial lives, by giving these live seminars and becoming a mentor with my advisory service.

Interviewer: OK, what are your favorite tools and resources to use? Including your own.

Chuck: It depends on the strategy. I like stockcharts.com. I can get my indicators from that website. I use the 50 day, 100 day EMA averages. I use on balance volume, I use Keltner channels. I can find all those on stockcharts.com.

Then over the years I've developed my own options calculators that will determine the profit/loss potential for an option trade before I take the trade. I developed six calculators that will do this calculation. There's one for call option purchase, put option purchase, call option spread, put option spread, covered calls, and married puts.

That's the tools I use every day. Before I take an option trade, I'll run the trade through the calculator and figure out what the profit/loss potential is for that trade before I take the trade.

Interviewer: Your proprietary systems are what?

Chuck: The calculators, those six calculators.

Interviewer: OK. What advice would you give to a novice trader starting out and an experienced trader, not having tremendous-

Chuck: The biggest advice I would give is don't over-leverage yourself, and limit your trading to limited risk trades. That's I think the best advice I could give to a novice or an experienced trader, because I've seen it so many times when people are over-leveraged and all of a sudden they panic, and they add their position before they should be.

Or if there's a big adverse move then of course their account gets wiped out, but. That would be the, if you're an option trader, that would be my advice.

Interviewer: What's next up on the horizon for you?

Chuck: I'm developing a retirement program, and I have something that, it's a simple trend following system. It's a longer term system. You get in and out of five different asset classes, U.S. stocks, international stocks, commodities, real estate, and bonds. You rotate in and out of these five asset classes using this very simple system, and you only check the system once a month.

Anyway, that's a great retirement program. That system's never had a losing trade since 1973, when these . . .

Interviewer: Did you say you trade Forex?

Chuck: No.

Interviewer:

Why not?

Chuck:

Because with Forex and futures, I can't get that edge in picking out stocks of the best companies using that fundamental analysis. I like to have that edge.

Right now we're in a deflationary environment in the world economies and everything's very slow growth in the U.S., and especially over in Europe. What we do is we focus on companies that still have consistent growth rates despite the current global environment. That gives us a real edge.

We pick stocks that, they're not dependent on the price of oil or commodities, they're not affected by the European debt crisis. They're able to grow their earnings, very slow growing, 1% GDP U.S. economy, and we just focus on the stocks. That gives us a real edge.

Conclusion

Thank you for your interest in trading, and the opportunity to present you with three unique points of view on approaching options, stocks, and volatility.