

A TALK WITH TIM REA



Tim Rea has a systems vendor business called Auto Trading Systems that has a system in the Top 10 Tables in Futures Truth called Auto-CoreDuo. Tim is also the founding Principal of Transworld Capital Management, a CFTC registered Commodity Trading Advisor and NFA member. He now has a small team to help trade around the clock.

Tim also has gained some attention recently when he was placed 3rd in the 27th Annual World Cup Challenge in 2010, a real money trading contest that goes for a year. He actually entered quite late but still achieved a net result of 156% for the World Cup Challenge in 5 months he traded it.

Just to clarify it what “hat” are you wearing today?

Just as in individual trader having come through the school of hard knocks as they say.

Tim, tell us a bit about how you came to be a trader?

Well my background is actually in other areas of business here in New Zealand, things like the motor vehicle industry, commercial property and farming. I had done some discretionary trading in the late nineties and around 2001 I had sold some business and property interests and took some time out to decide what next. I came to realize trading was something I had always been fascinated with and then had the time and the money to pursue this.

So how did you learn to become a trader?

I initially went to various seminars, read books etc. One of the issues I had in terms of methods I had learned was they relied on judgment as to where to exactly enter and exit. Depending on the day the how I may have felt for various reasons the way I treated things would be different and I could see that was an issue.

Eventually, I came across something called TradeStation™. This is a platform that has charts, technical analysis and you can use it to write trading rules into and even execute many things fully automated. So as I spent a lot of time working with that, I was able to move from discretionary trading to pure systems trading.

What motivates you?

Well several things, firstly I am fascinated with the markets, the challenge of finding ways to trade and of course the financial potential. I am a Christian and part of the vision I have involves financial provision for outside just my own family needs. I also really love some aspects of this business such as the ability to do it from anywhere in the World with an internet connection, without many of the traditional business issues or commitments, the capacity to scale up or down without financing or significant complications and commitments like most businesses and with the potential to do well on falling markets not just rising ones, and regardless of the economy. I think if you can trade well it or find other to trade for you it offers some aspects that are hard to find in many other areas of business I know of.

So did you do well from the start?

Although I had some early success these were short lived and I made my share of mistakes that in some ways I am embarrassed about but these were also the things that helped me to learn. Most traders seem to have to make these sorts of mistakes for themselves. Many new to trading have a pretty rough run which is to be expected really with no experience but then have often decimated their account within a few months and give up. I don't mean to be pessimistic but generally something that you will make good money at is likely to take some time to learn.

Is there a path people can follow to learn how to trade?

Certainly not a simple structured one I can point you to. If you want to be a doctor, a lawyer or say an airline pilot it comes at a time and price commitment, the difference is with those professions it is a much clearer path ahead of you with more quantifiable potential outcomes. Even in those examples not everybody has the academic abilities, time or financial resources needed. Trading is quite different although some may get in house training at a large firm it or go to certain places for training it certainly is not as obvious how to become a good trader as to become a good doctor say, well not to me anyway. If you are thinking of going to a seminar or taking a course perhaps ask some obvious relevant questions.

Trading is a bit like flying a helicopter where if you can pay for it up front they let you fly it even though you have no experience and of course the inevitable usually happens!

How did you get past the rough early learning phase?

I had a very strong determination which could also be just plain pig headed stubbornness but I did for the most part use smaller accounts so I could afford to lose and learn and still be around to continue. Despite Futures Truth™ • www.FuturesTruth.com

that the cost to learn was for me certainly hundreds of thousands of dollars and several thousands of hours trading over several years, developing systems and learning.

A few years back I put money with 2 different guys. One never posted a losing trade as he never closed it and the other was in a private fund where major fraud occurred. Both accounts were totally wiped out. Those two events made me so much more determined to learn this for myself as in my experience I felt at the time I could not rely on others to trade for me but to be fair they were 2 unfortunate but bad examples.

What sort of mistakes did you make?

Well where do I start the list is so long!

Many new to trading make the same sorts of classic mistakes and I was no different. Regardless of the method you use there are some issues that are often very common. I will try to mention some obvious ones.

Excessive leverage and risk. Everybody likes the idea of the power of leverage but of course most are not initially prepared for the flip side of it. Perhaps think of it like flipping a coin and betting, if you had \$10 but bet \$1 you could get into trouble very quickly. If you bet 10 cents a bad run won't finish you off in a hurry but 1 cent you could play for a long time even toss several coins at once while you learn techniques how to toss the coin and get it to land how you want more often than not. Anyone who never lost on even 10 trades in a row has unlikely traded very much.

Another is stop losses. OK I think everybody has done this at some stage, you put a trade on, don't physically put a stop loss in or don't even know where it will be or move it so to try to stop it being hit. You should always know where you are going exit a trade if it's going against you and trust me many trades will. You can actually have a high % of loss trades and still do well if the profitable trades are much larger than the loss trades and in a reliable enough order. I have a saying, put the stop where you think it will never go and it will! If you make a trading plan don't change it once you are in the trade regardless if it's going against you or if you are up nicely. If you have plans then stick to them.

The emotional and psychological aspect of trading is something early in can overwhelm you and can be a challenge even when you have traded a long time. It is actually one of the most important issues you need to get control of. It is hard to explain it till you trade but it is a major issue for many people and many are influenced by their emotions in very negative ways.

Some examples of that would be if things are going well getting too clever for your own boots and putting on too large a trade size for your account or that you think you just know where the market will or won't go. Other examples are stopping trading when you have losses which are inevitable just because you feel bad or get scared only to miss some good trades that of course give you some renewed confidence, climb on, start trading and do the same, hit some more losses and stop again. Another would be to interfere with your stops or targets because of an emotional influence. Another is to spend personally based on a good run over a relatively short time or think more or less of yourself just because of some trading results.

The emotional or psychological influences can come from so many sources. Some examples would be your personal life, financial state, good or bad runs in trading or outside opinions on what the market is going

to do. Hey just watch CNBC for a few minutes and see what different people say! These are all examples from my own experience but the emotional area is a whole mine field and a subject in itself with entire books dedicated to it just as a trader.

So tell me how did you overcome the emotional aspects?

Well I don't know if you ever totally overcome emotion or the mental challenges you face at times but you do learn how to handle it better. For myself there are several things that help such as using systematic methods that has been tested over years of data, using a portfolio of methods and contracts to spread risks. It's probably more that I have over time become so used to the profits and losses and runs of both and trade so frequently that I don't generally get too emotional about any individual trade, days, even weeks or months at times and have learned to be generally very consistent in my trading regardless of how I feel but in any business there will always be times that there will some emotional or mental impact on you, the trick is to not to let these cause you to change your plans. That is not to say you may not use some judgment such as stand aside during unusual market events or make some adjustments to your methods and policies but that should be a rational decisions not an emotive one.

What about finding the right methods to trade?

This is a very difficult area for those newer to trading to figure out. In the end I have developed my own methods working with many different ideas but most will not have the time or experience to do this for themselves.

Of course if you look around on the internet it is full of websites claiming incredible results and so many will look for a source to learn methods, follow someone's signals or buy trading software. Others may find a trader they can follow or who will trade for them.

Unfortunately much of what you read on the internet is not telling you the real story. You need to learn how to sort the true from what is not. That unfortunately can be an expensive thing to figure out. One example of that is if you are looking at buying a computer trading system. Most who develop systems will know how to make a system look good on a computer back test. There are all sorts of things you can do on a specific set of data that mean it will look really good but it may be so highly optimized to fit that data it is unlikely in real life trading it will come even close. Again your magazine can help people to understand that and assess a system if you are tracking it and I understand you can even provide an opinion on a specific system. It is interesting and a bit of a reality check looking at the results of testing since release date in the Futures Truth magazine that's for sure. Also having unrealistic expectations for slippage or impact of bid/ask spread can be an issue.

The other thing is what is right for one person may not be right for another. A lot of that has to do with your personality, risk profile, and personal situation and again is an area we simply don't have the space to go into it but to give a simple example:

One trader may actively trade short term within the day with large leverage accept very large % profits and losses of an account where another just could not handle that for both risk and trading style and needs to take longer term trades and a much more conservative approach to losses. We are all different and what is great for one could be a disaster for another if they are not prepared for it. Many like what they see in back tests or real trade histories but freak out when they actually have trades similar in real life. Try to be honest

with yourself what you can mentally handle for both activity and losses.

Another issue is I think putting your eggs in one basket. We may find a method that is working well and trade just that, every system or method will have loss periods. I trade many systems personally spread over various contracts, styles and timeframes and I think that has really helped me. Often something doing well while another one is struggling and that can really help smooth the ride out. Of course that is what often Hedge Funds do on a much grander scale than most people can but even 3 systems can help smooth things out if your account can handle it which of course is often not feasible for those with small accounts.

What are your thoughts of very simple systems to trade?

In terms of the methods often as a new trader will find a method that looks promising and trade it without fully understanding that is it normal to see methods that work even on something very simple such as a moving average crossover for a period but may not look so flash if you start looking deeper and on more data than just the last few months or year for example.

What about trade signal services?

Yes there are numerous trading recommendation services, and ways they can be used. There are many that seem to make incredible claims with nothing to back up what they say or verify these were the actual trades done. I have seen so many that claim no losing months and incredible returns. There are honest services, some that have produced some impressive results out there also but you need to try to figure out what the figures you see presented actually are. I would think it may be preferable that it can be traded for you at a broker firm that can verify the results shown are correct rather than an email or SMS service you need to trade on manually but that of course is just my opinion.

So are there places people can use that you know of that are definitely for real?

Yes there are places that will show real account trading results. My firm Auto Trading System does it, some brokers such as Striker Securities do and any publicly available managed CTA program normally does have actual trading history that they show. Another example is the firm that runs the World Cup Challenge, which provides a service that people can get their account traded every time one of the World Cup guys trades based on that trader's own account which they show trades from. That doesn't mean you will make money following those systems, traders or advisors of course but may be a better foundation to make an assessment on than some of the things I have seen and often with the people behind them remaining anonymous.

How good at trading do you have to be to be successful?

Well the thing is you actually have to be successful at trading just to break even, especially the more frequent you trade. There are costs to overcome. Just in the normal trading there is the commissions and spread between bid and ask prices, and then you often have other costs such as software, data, computers and trust me they all add up.

Understand it is estimated that around 90% of traders lose money so you have to be in the top 10% just to break even and better than that to do well at it. Sounds like a tall order but to be fair a lot of small business ventures are gone in a relatively small time too. Probably the amount of leverage available in trading to Futures Truth™ • www.FuturesTruth.com

people with no experience and the lack of commitment to trading most people actually have doesn't help.

One book I read said there was plenty of money in trading but most of it was not from the trading side but the services around it such as data, software, brokers, training courses, various other vendors etc. I didn't believe it at first but now I certainly think it was a valid point.

Wow that sounds pretty discouraging!

Those entering into trading need to understand these sorts of things if they are to have a chance to be able to continue with it. Most are simply not aware of the realities and sorts of issues they will face and that is before we even start to get into all the sorts of things that can go wrong in real trading even with a good plan in place. If you are better prepared as to what to expect and can plan well in advance you may give yourself a better shot going the distance in this business.

There are those who do very well of course. Rome wasn't built in a day but you can destroy your account in one with just one or two bad practices!

Are there any books you can suggest that might help people get a better understanding what's involved in being a trader?

There are many good books but one author that wrote several trading books that stands out to me. His name is Alexander Elder. The book I say is my favorite is called *Come Into My Trading Room*. I think the reason this book seems so relevant is although it is a trading book with some techniques he first was a psychologist and his perspective leans heavily on that background and experience and that in reality is such a big component of trading most do not appreciate initially. When I read a book by him some of the things I thought sounded off or didn't accept but then when I experience these for myself and realized he was very correct.

Is there anything new on the horizon for you?

Yes, I am actually fairly excited about being involved in co-founding a new niche Broker firm www.progressivetradinggroup.com. The point of difference with this firm is that it will only offer clients programs that are already being live traded either by the developers behind them and/or ourselves and further we will tell you what programs we have invested in ourselves.

Also, I personally trade many systems not previously seen and we will have some additional programs of my own available to help clients diversify. We will have programs ranging from small \$2000 minimum FX programs through to custom portfolios for clients with over a million dollars to invest.

So, any final advice?

Well firstly this business is certainly not for everybody. Reality is most would do better financially to not trade for themselves or find a professional service to trade for them but if you do want to learn expect it to take years not months. If you still want to be a trader by all means give it a go but whatever you do keep your trade size small and never put a trade on that will have an impact on your lifestyle or more important ability to provide for your normal needs if it goes wrong and never invest more than you would be prepared to lose.