



4 Steps to Trade Like a Pro

- If you learn nothing else from cards, never use the term "All-in" when trading stocks.

If you ask one hundred traders what makes a successful trader, you'll probably hear five dozen different answers, ranging from "buy low and sell high" to "follow the volume" or "follow the options action" or "do the opposite of what some guy on television does" as well as the more practical "let your winners run and cut your losses quickly."

If you talk to one hundred successful traders, you will hear a more simplified set of answers:

- discipline
- a trade thesis/strategy
- patience
- the first loss is probably the best loss

And while teaching a trader to take losses or follow a specific pattern or strategy is very doable in my opinion, teaching discipline and patience is harder -- much harder. I've seen many folks compare trading to poker, specifically Texas Hold 'Em.

And while it's a cute and fun comparison, it's hardly practical. Who wants to hear an anecdote about the time in Fast Jimmy's basement when he scored a huge takedown on the river when he probably should have folded ... blah, blah, blah.

Most comparisons to poker are pure garbage. There. I said it. Now, I'm gonna flip the switch, though, and present a lesson that Texas Hold 'Em can teach new and existing traders alike.

We want to learn patience and discipline. Too many times we can find ourselves making a trade out of boredom and temptation. Or maybe we see a ticker appear over and over on Twitter or in a Discord or on Robinhood, so we take a shot. There thesis behind the trade has about as much meat on the bone as a runway during a Paris fashion show and absolutely no discipline. Without either of those, we can pretty much rule out any thought of patience. Chances are we'll either jettison the trade too quickly or hold onto it way too long.

Yup, you're screwed.

Wanna learn from poker? Here's how you do it, but I'll warn you, it's going to hurt the pride and the pocketbook, but almost every good lesson in trading comes at a cost.

Exercise No. 1

Get into a game of poker for money -- real money. No, you don't have to break the bank, but if you are playing for nickels and dimes, then you'll get nothing from this exercise. So, find yourself a game, preferably a no-limit game, where you could lose enough that it might bother you a little bit. For some that's \$20 and others it might be a few hundred. Don't go losing the mortgage payment or grocery money or you may find yourself selling candy out of a van to earn a living.

Oh yeah, wear a mask. Or wait until the pandemic passes.

Before you get to the game, outline four to six hands that will play. By this, I mean pick four to six pairs of face-down hole cards that you are going to play. I would advocate two strong hands like Ace-Ace, King-King or Ace-King suited. Then, pick one or two middle hands such as a lower pair or suited connectors. Last, pick just one random hand of anything you want. When the deal comes, if you do not get those exact cards, then you fold. On the small blind, you still fold if you don't get those cards. On the big blind, you fold after the flop unless you have a 3 of a kind or a made hand. I'm not going to tell you what you should learn. Do it one time for an entire evening and you'll know by the time 2:00 a.m. rolls around.

One extra component to this: No bluffing -- none. If you do not have a made hand of some sort like a pair, 2 pair, 3 of a kind, flush, straight, etc., then you fold. It doesn't matter what you have committed to the pot. Unlike the above, I will tell you why on this one. There is no bluffing as a retail trader. Sure, the high-frequency traders can flash big buys or sells before pulling them back quickly. That's a sort of market blue, but Sammie Stockwagon, the retail trader, doesn't have that kind of speed or firepower. Can't bluff here, so don't bluff there.

Exercise No. 2 (And You Must Play the Entire Night!)

Play any hand you want, but before you begin the night, make a side bet with another player that if you don't finish with at least what you started, then you will give that person whatever is left. And what do you get from them if you win? Nothing. Seems like an awful idea, doesn't it? Well, I was upfront in saying these exercises could cost you some money.

If all goes according to plan, what will happen is you'll play far too tight the entire night. You will be playing not to lose rather than to win. You'll tend to only play your strongest hands, shy away from big bluffs, and likely shy away from big pots.

The benefit here is it can teach a trader to only trade their strongest strategies and not overcommit to a trade, but in trading you have to trade to make money not to avoid losing money. And the lesson becomes clear playing poker this way. Your tells will become more apparent to other players, and over time, as you sink below your starting amount, you'll find your tight and worried play becoming a bit more desperate. The pendulum will swing to the opposite side as a "what do I have to lose" attitude takes over. When you find yourself at half your starting pot, you will start becoming overly aggressive because the person you made the bet with is going to get whatever you have left anyhow, so why not bet it all?

Play not to lose two or three times, and I can almost guarantee that this will happen to you. You might get lucky the first time you try this and get a strong hand early to win a big pot, so try this two or three times, and I think you'll be surprised at the difficulty and emotional roller coaster you will have playing not to lose.

Exercise No. 3

Play with someone else's money. The caveat: There are no consequences if you lose. This one might be tough. I mean, you have to convince someone to spot you \$20 or \$40, but eventually you'll find someone. Tell them it's in the name of science. Ask them if they've seen *Trading Places*. Tell them if things go well, you'll repay them plus a little something extra -- you know, for the effort. But make no promises of repayment.

It won't take long for you to learn something about yourself with this exercise. First off, do you feel an obligation to repay them no matter what happens? Will you find yourself playing not to lose (which makes it important that you only do exercise No. 3 after exercise No. 2)? If you make money, how much do you keep? This exercise is fun because it opens up so many moral questions along with it.

Exercise No. 3A

If you are uncomfortable with the exercise above, then borrow the money and promise to pay it back with 30%-50% interest. Ah, leverage. This is margin trading at its best -- much better than paper trading on margin. Make sure the interest is high enough that will hurt if you don't make money. Again, note how you play. Pay close attention to your anxiety levels, especially in relationship to your stack size and the time of the evening. As the night wears on and you get closer to wrapping things up, pay close attention to how you are feeling and how your play changes. You're likely to see hints of the second exercise come into play.

Beware the Short Stack

Exercise No. 4: The Short Stack

There is little worse than being the short stack at a poker table. I despise arriving late to a no-limit Hold 'em game that might have a buy-in limit of \$50 or \$100, because there are always players sitting at the table with \$200, \$300 or even \$500 in chips. The moment I sit, I'm at a disadvantage.

If you've never played this way, then guess what, it's time for another exercise. Enter a game where you start with half as many chips as the person with the lowest total in the top quartile. Therefore, if there are eight players, start with half as many chips as the person with the second most and then play. If you thought there would be no math here, you're out of luck. This is its own exercise, so the previous rules aren't in play here.

The short stack is the enemy of the retail traders. No retail trader has enough fire power in their trading stack to push around a particular stock or market maker. In fact, institutions and algorithms with the large stacks are going to continually push you all in, at least emotionally, on any position you own as often as they can. Get used to playing with the small stack and if it makes you uncomfortable, then learn to be patient and wait for your hand. Exercise No. 1 may come in handy just yet!

When you play cards, you can have the nuts -- a hand which cannot be beat. This is the time to go all-in if the opportunity presents itself. But not in trading. There are no all-in moments, unless of course you have inside information. In that case, you are likely to find yourself all in jail. So, take caution whenever you hear someone mention a perfect setup, -- unless you have the context of that statement with actual numbers.

And don't be wooed by large numbers. You might see a trader talking about making \$10,000 or \$100,000 or even a cool million from a position, but without context it means nothing. When someone tosses out a big bet on the table you have to figure out their hole cards. You don't have the full context of their bet, but you have pieces. You know what is on the table and in your hand. You know there are a limited number of possibilities.

It isn't quite the same with trading. If someone makes a million dollars in a single day, we will ooh and aww, but what if they used a \$5 million position to get it? Do the math and you'll find that to be a 20% gain. Now, don't get me wrong, that is fantastic, but doesn't one-million sound so much better than 20%? Or what if it is only a 10% return or even just 1% of the portfolio? What if they used so much leverage that a 5% retracement of the stock would have wiped out their account? These are the things folks need to know to get a true understanding whether the trade was good from a risk-reward standpoint.

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