

## **Fade-Self... One Trader's Commentary**

**Strategy**

**20 October 2005**

### ***"That's Entertainment"***

*"A writer is not a confectioner, a cosmetic dealer, or an entertainer. He is a man who has signed a contract with his conscious and his sense of duty."*

*- Anton Chekov*

*"I'm funny how? I mean, funny like I'm a clown, I amuse you? I make you laugh... I'm here to..... amuse you? What do you mean funny, funny how? How am I funny?"*

*- Tommy DeVito (Goodfellas)*

***I really enjoy writing this newsletter, you know? It gives me a chance to relax from trading and vent. I think it really is important to have other outlets besides trading. I'm not one of those traders who wakes up in the middle of the night worrying about the markets. I trade small, with little ego and nothing to prove. Not big, macho, and nothing to lose. Trading isn't a sport. Don't get me wrong, it's the most important thing that I do, but doing other things are important too. Whatever it is you do to unwind- your goal should be to be satisfied with your trading (profit or loss) every single day. As long as you had a system and followed it you should be able to transition from trading to your personal life without stress. Making or losing money shouldn't be your final objective- being satisfied that you traded in a disciplined manner should be your main motivator.***

### **Equities- "Heading South"- South Beach, Miami**

Well, I certainly hope you pay very close attention to exactly what I write. I'm extremely detail oriented. On September 30<sup>th</sup> I sent you a newsletter, on the second page of that newsletter, in a segment called "Melancholy and Mystery of a Street", half-way down the page I made a **BOLD** prediction. It read, and please go back and check my work for accuracy...Are you ready for this??

**"I think we will see a solid pullback in the S&P to 1170 in the next month. That would be 60 points- which is worth \$15,000 on one contract. There is no guarantees in trading- but it's likely that in the next few weeks the bears will be back and Goldilocks will be looking for a new condo."**

Word for word, its all there in orange and black..... I WAS WRONG! There, I said it.. And I can admit when I'm wrong. The December S&P 500 contract closed at 1234.30 on September 30. I said it would drop to 1170. It didn't. Ok, and now its back up to 1200. My bold prediction was officially wrong- instead the S&P only dropped to 1171.75. Hey this ain't horseshoes or hand grenades. Close doesn't cut it. Oh, and as a side-note I would also like to apologize for my aggregious grammar- I said there IS NO guarantees in trading- well it should have read ARE NO. Jeez, why does anyone read this thing...Imprecise trade recommendations AND intolerable grammar.

Seriously though, it was pretty good call, yeah?

### **Treasuries- "Transfer of Power"- Smithsonian, Washington D.C.**

Remember last week when I wrote, "Does anyone in the T-Bond boat have a sinking feeling? Like there's nobody bailing the water out?" (If you don't I would start printing out the issues of this rag- for quick reference- I mean half the fun is checking back to see if the charts back up my wild claims.)

Bonds continue to plummet. There is a hole in the U-BOAT- commander! The hole is in Washington. Nobody seems to like the idea of there being a NEW Alan Greenspan. I figure as long as the NEW guys name is Ben Bernanke- we should be all right. The bond market, however, doesn't seem to share my opinion. Anyone new is seen as a risk. Until the successor asserts himself (or herself) and the markets understand that what Greenspan did with his 18 years at the Fed can't be undone, bonds will fall.

Speaking of details, I do realize that a U-Boat was actually a submarine and therefore it would be impossible to bail water out of it. But that's immaterial- less semantics- more trading.

### **Metals- "Shining City" Biltmore Theatre- Broadway, NYC**

Here's the thing- trade small, have a gameplan & institute it, sell premium, and cut your losses - you'll probably make money. But, you have to trade small- every time. Have a gameplan & institute it- on every trade. Sell premium- effectively. Cut your losses- consistently. It's important to understand that even when you do all of this- you can still lose money on a trade. I lay it all out on the table in life, in trading, and in this newsletter. I told you to get long silver at \$7.59 back on October 6 because there was a 90% chance of it going to \$8.03 in the coming six weeks. Everything was looking good as it continued to spike over the next week- ultimately reaching \$7.955- meaning we were up 35 cents (\$1750) per contract. To begin with I bought just 5 contracts for every 500K unit. That's trading small. My gameplan (system) told me I had to buy the commodity on the highs of a day that it made 9 months highs. That's institution. (Well not really but you get it) Next, selling premium. I was ready to sell \$7.90 December calls for 24 cents a piece at about 9:55 AM CST on 10/11/05- but I had to wait for \$8.03. Bottom line is- we didn't get there...At least not yet. We're back to \$7.62. My stop is at \$7.44. I'm not sweating the move- I'm still up \$625 on the position (\$525 when you include the 5 commissions) So, I made missed an opportunity to sell those calls. I messed up. It's not over yet- but I can assure that I won't make a mistake on the fourth trading rule - cutting losses. My stops are at \$7.44. If we trade through there I'm gone. You can bet on that.

As for Gold- I didn't miss out on that one. In the same issue that I bought silver - two weeks ago I wrote, "As for Gold- hedge your longs by selling \$480 December calls. We could be in for a quick pullback in the next week or two to the \$450 level if we do move lower keep adding to your position." That trade has really paid off. A 500K account would have been locked in about \$4600 on a 5 lot- that makes my breakeven point for the gold trade \$9.50 lower than my original entry of \$453. Last trade was \$465.6 and were making money on both sides. The calls that we sold have lost half their value (\$4600 down to \$2200) already and the futures leg of the trade is still up \$6500 per \$500K (1.3%).

## **Energies- "Electricity in the Air"- World Series – Chicago/Houston**

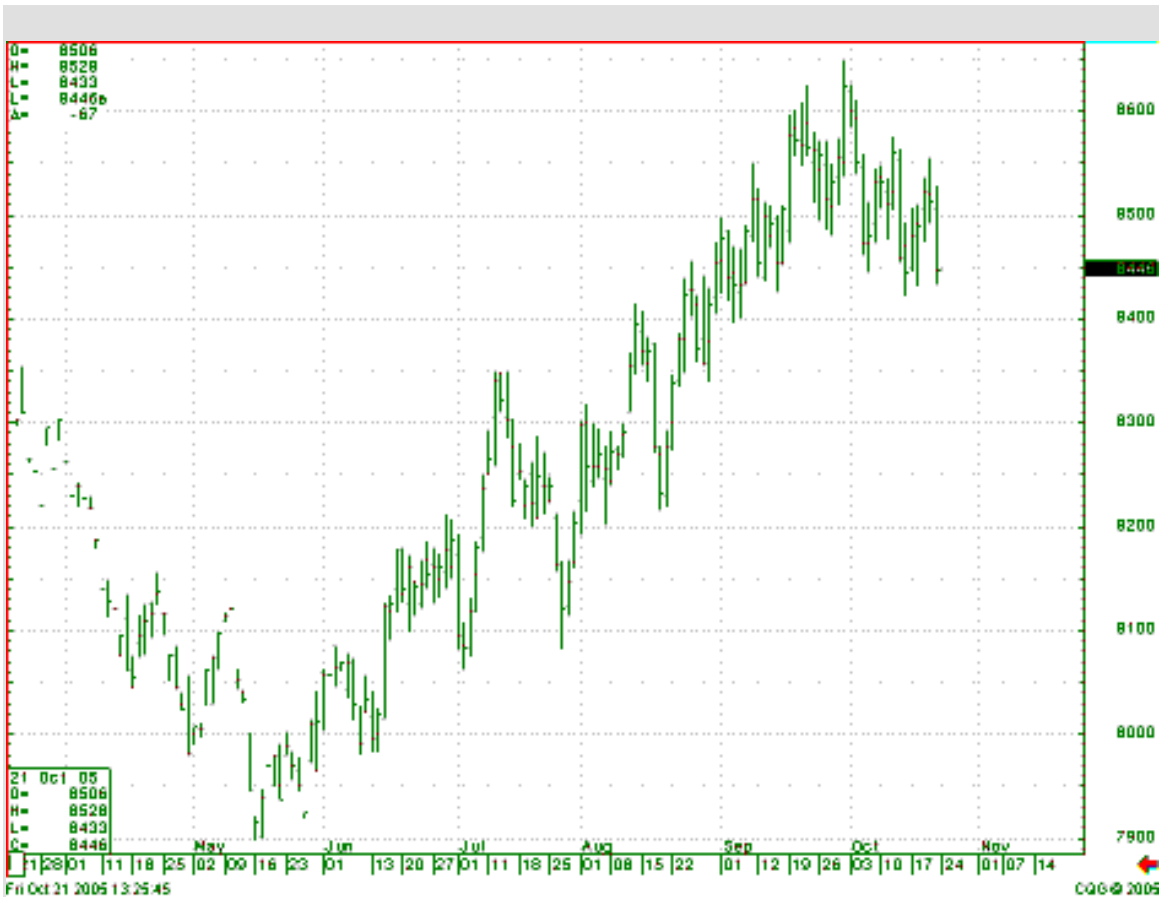
As far as entertainment goes- there is nothing like late October for a baseball fan. The air is crisp and there is an amazing energy here in Chicago. It's the first time since 1959 that the White Sox have been in the Series and the city is abuzz. So are energy traders. They are abuzz because Crude is trading with a 59 handle for the first time since July. I'm still hesitant to get short- but I'm no longer interested in getting long...for a while. We could see Crude drop to \$56.00 in the next month and actually as low as \$54.25. I wouldn't take a position today. I'd sit back and enjoy the series. How great would it be to see Roger Clemens putting up zeroes in a Game 7??

## **Currencies- "A Walk in the Park"- Anytown USA**

So far this long dollar trade has been just that. However, its just when you start counting your chickens...that avian flu comes along. (Author cringes- as his usually dependable humor deserts him momentarily) All kidding aside. I'd stay long the dollar. My position is the same as last week (Short Yen, Euro, and Pound Sterling with puts written.) I did however flatten out my Canadian position. That puts an end to a trade that I entered on August 22- back when the front month was the September contract. Following is a trade-by-trade account of my Canadian position over the last 2 months. Positions were sized for a 520K account.

August 22- Bought 10 Sep. Canadian @ 83.27 (\$7300 Profit)  
August 23- Sold 10 Sep. Canadian 84 Calls @ .42 (\$4200 Profit)  
September 8- Sept. 84 Calls go off in the money- nullifying futures above 84  
September 9- Sold 10 Oct. Canadian 86 Calls @ .54 (\$5400 Profit)  
September 9- Bought 5 Dec. Canadian @ 85.23 (\$1200 Loss)  
September 16- Bought 5 Dec. Canadian @ 84.99 (\$100 Profit)  
October 7- Oct. 86 Calls expire worthless  
October 7- Sold 10 Oct. Canadian 85 Calls @ .96 (\$3200 Profit)  
October 17- Bought 10 Oct. Canadian 85 Calls @ .64  
October 18- Sold 10 Dec. Canadian @ 85.01

Total Profit of \$19,000 for a 500k account. That's 3.8% profit for a two month trade. The initial margin tied up on this trade ranged from .75 to 2%. Meaning that if this was the only trade in the account- you would have 98% of your money in cash. This is the best example of risk/reward that I've seen in a while.



Here is a daily chart for the Canadian. Notice how it moves higher when I buy it and lower when I sell it. Just kidding. I figure- its been a long week and I may as well throw in one liner for anyone who's read this whole verbose mess. Till next time.

**Fade-Self (fād-sēlf) verb.**

**1. In trading- to take objective conscious action that is directly in opposition to the trader's gut instinct.**

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