VOLUME

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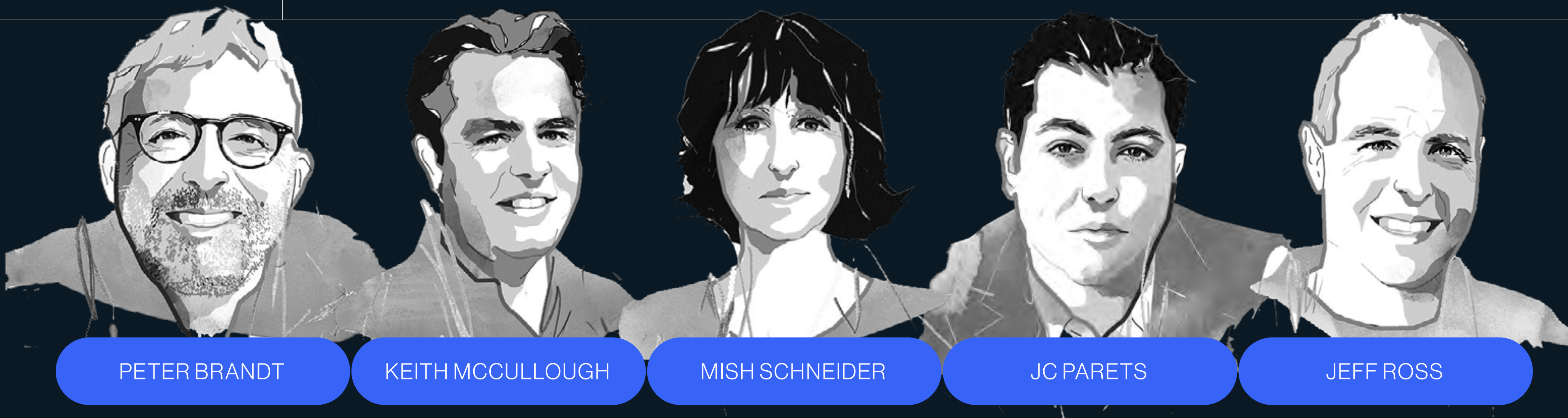
Tricks of the trade: Interviews with world-class traders



CMC MARKETS

We asked five world-class traders — from advocates of traditional technical charting approaches, to risk/reward enthusiasts and champions of the best fundamental indicators — to share their views on trading.

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Introduction

Finding your flow

As you embark on your journey as a trader, it's important to remember that there is no one-size-fits-all approach to success. Each successful trader has their own unique style, flow and edge. However, learning from the tried-and-tested methods of others can provide invaluable inspiration and guidance on your own path to success.

At CMC, we are committed to making the strategies of internationally renowned traders accessible to our audience. We believe that by learning from the best, you can develop your own approach that works for you.

In this anthology, we have compiled insights from five leading traders, each with their own distinct style and approach. Through their stories and experiences, we hope to provide you with timeless insights, broadly applicable strategies and actionable inspiration.

Remember, as you explore these different approaches, it is up to you to decide which techniques to adopt and which to leave behind. With time and practice, you will develop your own unique trading approach that works for you.

We would like to extend our heartfelt thanks to the traders who generously shared their insights with our community. We hope that this ebook serves as a source of inspiration for both new and experienced traders alike. Embrace the journey and trust in your own ability to succeed.

1

Peter Brandt

"I'm a technical chartist at heart, but fundamentals can drive markets

Peter Brandt

This staunch advocate of traditional technical charting has learned one aspect of trading even more important than technical analysis: emotional control.

@PeterLBrandt

Peter Brandt founded Factor LLC in 1980 and is currently the company's CEO. Factor LLC specialises in trading forex, futures, fixed income and equities. Factor LLC also produces *The Factor Report*, which focuses on classical charting principles, risk management, trading as a business and trading psychology. Brandt is a prominent author, publishing his first book *Trading Commodity Futures with Classical Chart Patterns* in 1990, and *Diary of a Professional Commodity Trader* in 2011. Having started out as a commodities trader in the 1970s, Brandt handled large institutional accounts for ContiCommodity Services, a division of Continental Grain Company, for clients including Oroweat, Godiva Chocolates and the Campbell Soup Company. Here, Peter Brandt unveils his simple yet effective technical approach to trading, and reveals the secret to his success: guarding against emotional drawdowns.

I'm a classical chartist. I stumbled across the work of Richard Schabacker (author of *Technical Analysis and Stock Market Profits*), and it instantly connected with me as an interesting way to look at markets. I'm very visually orientated, and charting resonates with me as an approach to trading.

I concentrate on simple patterns. I don't over-complicate things with Gann indicators [a method of predicting support and resistance levels], Elliott waves [a means of predicting long-term price trends based on investor sentiment], Fibonacci retracements [a theory that links price movements to the 'Golden Ratio' of Fibonacci sequences], or moon cycles [studies have shown that stock markets return slightly more, on average, around new moons than around full moons*]. I try to trade with the trend, which I define as a simple 18-day or 18-week moving average. That serves as a proxy for which way the markets are going.

I'm very particular about the chart patterns I'll take a risk on. I may only trade in any given market two or three times per year. It's taken me more than 40 years to develop a feel for these, but now I don't feel the need to watch everything that's taking place in the market. Instead, I keep my eyes open for the rare patterns that interest me.

I believe in the Pareto principle, which observes that 80% of outcomes are achieved with 20% of events. The same is true of trading. If I'd known that at the start, I'd have been more selective and aggressive about my trades. However, if I'd done so, I would still be governed by the Pareto influence. I still would have made 80% of my returns from 20% of my trades!

I have learned to accept the other 80%. Some of my best trades have been ones that I didn't expect much from — whereas some that I had very high expectations for, ended up being big disappointments. Ruminating on these used to drag me down emotionally. Over time, though, I realised that losses are part of trading. The markets aren't personal, so why should I take my losses personally?

Peter Brandt

I guard my emotions against extremes. I keep myself grounded. I prevent myself from getting too excited about wins, and likewise, shield myself from getting down about losses. People talk about capital drawdowns, but there are also emotional drawdowns. A big emotional drawdown can be more severe, and take longer to climb out of, than a big capital drawdown. I get my edge from persistence, discipline, patience and staying detached.

Listen out for lessons. You don't start out with wisdom as a trader. Wisdom is gained over time. You have to be receptive. Rather than going in with a pre-set narrative of what trading is all about, you have to let the process of trading be the teacher.

I ignore markets during the day. I don't think of myself as a trader who sits there watching the screens and reacting, but as one who puts orders in at the end of the day, and ignores markets while they're open. That's my job: entering orders that make sense based on the charts, without getting drawn into the story of blinking prices.

I limit my risk on any given trade to 1% of my nominal capital. Nominal capital is the total amount I'm willing to trade with. Most of the time, I actually risk much less than this, maybe 0.5–0.6%. If I have an account value of $1m, I will limit my losses in any position usually to around $4–6,000.

I'm more interested in quickly breaking even than the risk/reward ratio. Lots of people say you should only take a position if there's a 3:1 or 4:1 risk/reward ratio. But personally, I'm more interested in a high chance I can at least break even early on. If that's the case, it gives me a chance to quickly become defensive with the trade, putting me in a position to have a trade run without doing any damage.

I don't obsess about catching tops or bottoms. If gold is at $1,900 and I think it's going to $3,000 sometime in the next one to two years, I don't need to catch it at $1,800. I can find some comfortable place in the middle where I can pick up $300 or $400 with measured risk, and that's acceptable to me.

I pay attention to a small number of fundamentals. I'm a technical chartist at heart, but there are one or two fundamentals that drive markets over time. For the stock market, the number one fundamental factor is liquidity provided by the US Federal Reserve. Occasionally, such as in 2008, another major factor drives a big move in the market — in that instance it was mortgage derivatives. I don't need to understand how these drivers work, I just need to know that they are going to drive the markets a certain way. To that degree, I am a fundamentalist.

What you do with a trade is more important than the trade you select. Trade selection is quite a minor influence on your bottom line over time. What matters more is what you do with those trades. How do you size them? How do you time them? How do you get out if you're wrong, and where do you get out if you're right? These are the decisions that give a trader their edge. ●

* https://www.jstor.org/stable/43503349
* https://personal.lse.ac.uk/yuan/papers/lunar.pdf

> "Rather than going in with a pre-set narrative of what trading is all about, you have to let the process of trading be the teacher"

2

Keith McCullough

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I look at volume and volatility, as well as price, to predict market movements

Keith McCullough

The founder and CEO of Hedgeye Risk Management shares priceless insights on the approaches he uses to front-run Wall Street.

@KeithMcCullough

Keith McCullough, founder and CEO of Hedgeye Risk Management, has a unique approach to analysing the macroeconomic environment and predicting market trends. With years of experience as a hedge fund manager at some of the biggest names in the business, including Carlyle-Blue Wave Partners and Magnetar Capital, Keith is a master of identifying opportunities and mitigating risk. In this insightful conversation, Keith reveals his four quadrant-based approach to market analysis, which he used to predict the 2022 market crash months before it happened. But that's not all — Keith also shares his unorthodox strategy of only investing in expensive stocks, and shows how price, volume and volatility can be used to identify and capitalise on price trends. Get ready to learn how to take your trades to the next level!

Our growth, inflation, policy (GIP) model identifies four key economic scenarios, or what we call 'quads'. It is designed to front-run not only markets, but central banks, by looking at year-over-year rates of change in economic growth and inflation. The model groups these into: quad one (growth accelerating, inflation slowing); quad two (growth accelerating, inflation accelerating); quad three (growth slowing, inflation accelerating); and quad four (growth slowing, inflation slowing). Quad four is the worst of these. Everything is going down, all at once, and everyone loses out. Central banks step in pretty quickly at this point, essentially devaluing the currency so that asset prices, in that deflated currency, rise. Quad four doesn't tend to last long.

The GIP model functions like a map for me to start my day. I have a reasonably good idea of which direction most asset classes move in each quadrant, so understanding which one we're in gives me a map of what's likely to happen. It's based on what has actually happened, not what I would like to happen, which frankly I would struggle with. It also helps me distinguish between trades and trends. Prices fluctuate all the time. If I'm long on an asset because the quad indicates it will gain in value, I will buy every dip in the price because there's no reason to think that trade (the immediate-term price drop) will become a trend (a longer-term bear run).

I only like a stock if it's expensive. When I started out, I thought the idea was to buy cheap stocks and sell expensive stocks. Once you've screwed that up enough times, you realise it doesn't work. Economic conditions perpetuate expensive stocks getting more expensive, and cheaper stocks getting cheaper. I also want to be long on what's going up. If something wasn't getting more expensive, I wouldn't want to own it. Lots of quantitative analysts don't care what the multiple is on a stock. They just own it because it's going up.

There are two benefits to an active approach. The first is that it focuses your mind on managing your capital allocation so that you don't have major drawdowns. The second is that, by moving your allocations around to the optimal positions, you tap into compounding returns. Unless you're buying and holding (in which case you're bound to be right

Keith McCullough

eventually, unless you bought at the high of the cycle), you need to actively manage your portfolio. I call this prune and plant. Every morning I do some tweaking and trimming to my portfolio. You can take some profits on assets that gained over the last week and reallocate those into something you like that's now for sale for the first time in a while. The question I ask is, of my finite amount of capital, what's the best way I can deploy it today?

I look at volume and volatility, as well as price, to predict price movements. Increasing prices imply a bull trend. Trade volumes indicate the trend's strength. If they start to fall, this can signal the trend is coming to a close. Increasing volatility implies an upcoming bear trend. So if prices fall in a day, but volume and volatility remain low, this implies there's no bear trend developing. I also look closely at the volatility of volatility. Price, volume and volatility tell you about a trend in process, but change in the volatility of volatility is a leading indicator for a phase transition. If the volatility of volatility increases, that implies a shift from a bullish trend to a bearish trend, and if it starts to fall away, that implies the start of a bullish trend. Phase transitions always front-run big quad changes.

I don't guess. I use Risk Range Signals, a proprietary Hedgeye model, to generate probable price ranges to inform buying and selling decisions. The model produces a probable price range for any given asset based on price, volume and volatility. When an asset is near the top of the range I'll trim my position, and when it's near the bottom of the range, I buy.

I'm human, and I change my mind every day. It's not about being right or wrong, it's about changing. The only one who's really wrong is someone who decides to remain wrong. ●

> "When I started out, I thought the idea was to buy cheap stocks and sell expensive stocks. Once you've screwed that up enough times, you realise it doesn't work"

3

Mish Schneider

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I'm all about risk/ reward. I won't make a trade without my roadmap

Mish Schneider

The founder and chief strategist at MarketGauge reveals how she uses ETFs and specific commodities to identify and capitalise on market trends.

@marketminute

Michele Schneider, who also goes by Mish, has spent decades mastering the art of analysing markets and spotting trends. As co-founder and chief strategist of MarketGauge, she has helped some of the biggest names in finance, including Thomson Reuters, Bank of America and Barron's, make informed decisions and grow their wealth.

Mish's journey began as one of the few female traders in the New York commodity exchanges. Since then, she has developed a unique six-phase approach to understanding the markets. In this conversation, Mish shares her insights on how to recognise the transition of stocks and markets between these key phases, and how to use ETFs to assess the health of various megatrends.

Whether you're a seasoned trader or just starting out, this is an opportunity to learn from one of the best in the business.

I'm primarily a discretionary trader. By habit, I look for value trades, although with my husband [Keith Schneider, CEO of MarketGauge] I've got into some trades that follow strength indicators and momentum. Personally, though, I like to have a fundamental reason for why I'm going to do something. I won't make a trade without my roadmap, my navigation system. I'm all about risk/reward.

I got into charts because of my physicality. Back when I was trading in the pits, it was all open outcry, but I don't have the loudest voice. I wouldn't always be heard. I stood outside the pits and whistled a lot. From there, I could see the charts and how the prices were moving. After a while, I got good at identifying patterns.

I break markets down into six phases. These are bullish, caution, distribution, bearish, recuperation and accumulation. My number one piece of advice for all traders is to become a specialist in one thing, and to me, understanding these six phases is the best single thing to become a specialist in. I describe them in more detail in my book, *Plant Your Money Tree*.

My favourite of these phases is recuperation. The best time to buy a stock is at the end of a long-term downtrend, when the institutional money starts coming in but the public doesn't know about it yet. It's a wonderful inflection point. You're getting in just as something is going back over a key moving average. At that point, you have very limited downside risk, and if it catches fire, you have tremendous upside.

I don't like passive trading. It's one thing if you're 30 or 40 years old, and you can afford to sit through a 20–70% market downturn and wait for markets to recover. But if you're close to retirement, you can't wait that long for your portfolio to recover its value.

I like to use ETFs as indicators. Thematic ETFs are great indicators of the overall trajectory or strength of a megatrend. You can look at the individual holdings of an ETF of course, but individual stocks' performances can be skewed by one-off events, like an earnings miss. When you look at an ETF, one missed

Mish Schneider

earnings doesn't skew the theme's performance, so the overall trajectory of the market is clearer.

To find opportunities, I start with megatrends. Then I'll go to the macro situation, identify which phase we're in and make an assessment as to whether we're in a risk-on or risk-off environment. Then, I'll look at an individual stock, to see if it's changing phases. I'll identify the risk/reward, and from that, I'll make a decision on whether or not to buy it.

I look at 50- and 200-period moving averages. I talk about 50-week and 200-week averages in my book, because they approximate a year (50 weeks) and a business cycle (200 weeks). But for myself, I also look at 50- and 200-day moving averages, which is obviously a lot more fluid and fast, and 23-month and 80-month averages. When the daily, weekly and monthly charts are all bullish and all point in the same direction, and the risk isn't too far away, that gives me the confidence to get onto an instrument.

I keep the risk/reward favourable by taking profits. I'll take some profit at two or three times my risk, then more at four to six times, while aiming for eight to 10. As I take those profits, I move my stop upwards. This keeps some room for volatility, so I can stay in my position, but not so much that whatever I have left risks turning into a loss.

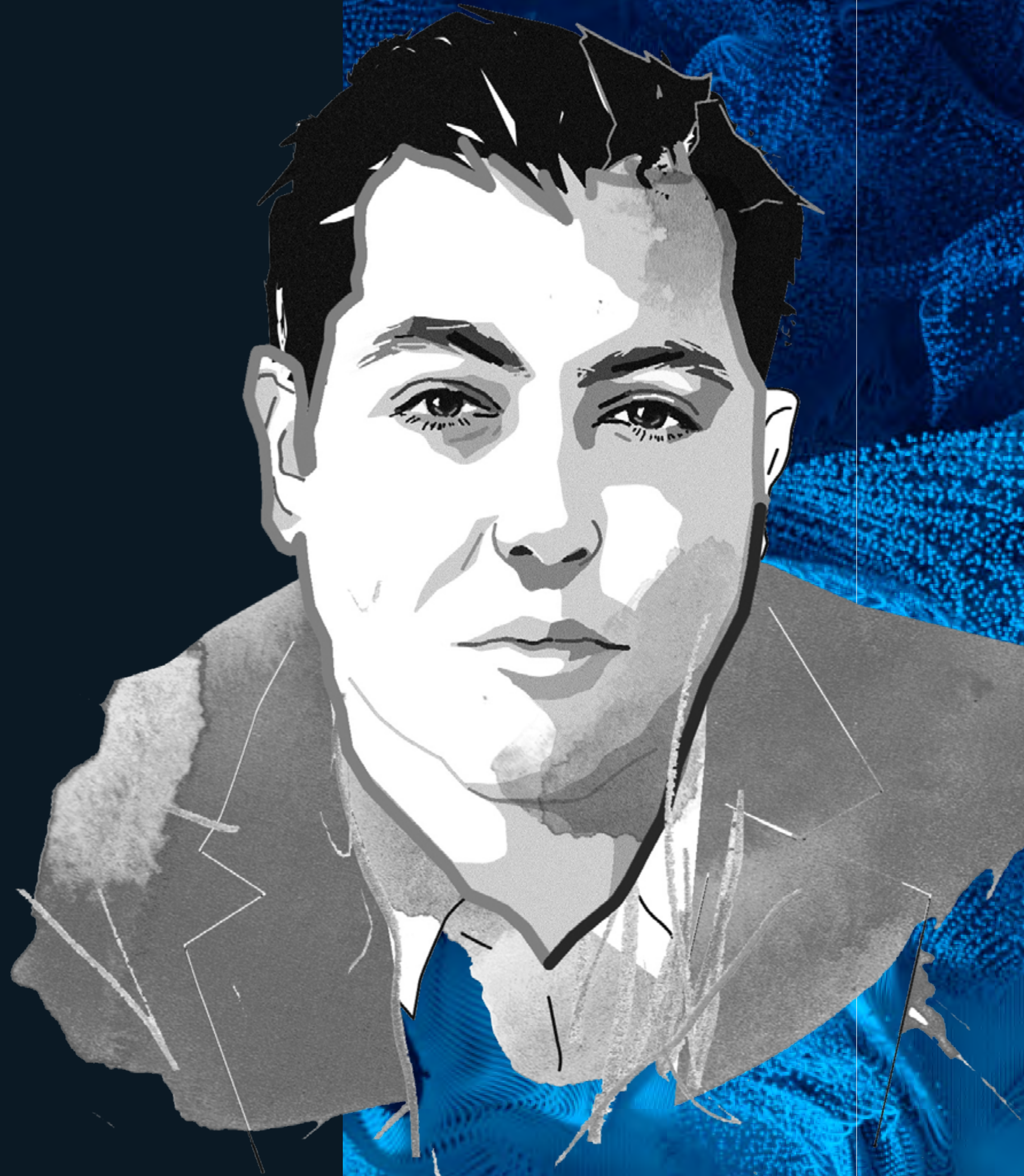
I keep a close eye on sugar. I started out trading coffee, sugar and cocoa. At heart, I'm a commodities trader. I still keep a really close eye on sugar prices because it's a very good lead indicator of commodities. Whenever you get into an inflationary environment, people turn to higher sugar foods as a comfort food. Eating more plants and grains is expensive, so sugar always does well during downturns. It also tends to rise and fall ahead of other commodities. ●

> "The best time to buy a stock is at the end of a long-term downtrend, when the institutional money starts coming in but the public doesn't know about it yet"

4

JC Parets

> “Price is the number one technical indicator — that’s why I favour technical analysis



JC Parets

The founder of AllStarCharts shares his unique approach to the markets, and the critical role of breadth in evaluating the health of the market.

@ALLSTARCHARTS

JC Parets, the founder of *AllStarCharts*, has made a name for himself as an expert in using technical analysis to make money in the markets. With features in *Bloomberg, CNBC, Barron's, Yahoo Finance* and *The Wall Street Journal*, JC's insights are highly sought-after by traders and investors alike.

In this fascinating exchange, JC shares the secrets of his technical approach to trading, which he describes as being about making money, not about being right. With a focus on following price trends and setting buying and selling targets, JC's strategy has helped him and his clients achieve incredible success in the markets.

Like the hedge fund manager Paul Tudor Jones says, I believe that "the most important rule of trading is to play great defence, not great offence". If a stock moves below its 200-day moving average, I'm out. Bad things happen below there. As a rule, it's don't go below the 200-day moving average. If I could have one risk management tool, it would be: "Keep it simple, stupid."

I think the fundamentals are a complete waste of time. To me, time spent analysing fundamentals is an opportunity cost. I'd rather spend that time doing more technical analysis. Price is the market's perception of the fundamentals anyway. By looking at the charts, we're still looking at the fundamentals, but everyone else has done the work. Bottom line is, if the fundamentals look good but the chart looks bad, I'm not buying, so why bother?

I don't trust anyone without good reason to. I don't trust anybody on the sell side or Wall Street analysts. Earnings estimates are just that — estimates — as are GDP numbers and employment rates. Company CEOs have a vested interest in lying to you, or they could just be wrong. None of these are sources of trustworthy data. I think you'd be crazy to stake money on decisions based on those inputs.

Price never lies. Price shows that a buyer and a seller have both agreed to exchange on a specific date, at a specific time, and that's on the record, forever. The same goes for all previous and future transactions. Market returns aren't random: they trend. When we put money on a stock, we're betting that a certain trend will continue, and that increases our likelihood of success. That's why I favour technical analysis. Price is the number one technical indicator.

I look at daily, weekly and monthly charts. My main focus is: I want to make money this quarter. The sweet spot is weeks' and months' holding time, around four-to-eight or four-to-12 weeks. I'm not a good day trader and I don't like the thought of being chained to a computer all day. As for being a long-term trader, I don't even know what I'm having for dinner, let alone what I'm going to be doing next year!

I use a 14-period relative strength index (RSI). Everything else is secondary to price, but it's scientifically proven that market trends have momentum, so I look at the relative strength to identify momentum. When it's above 70 or so,

JC Parets

that to me is characteristic of an uptrend. What positive relative strength tells me is that, even if a market is under pressure, major players are stepping in to support that stock, and that's generally a good indicator of future performance.

I know when to take profits. I set clear price targets, using resistance levels or Fibonacci retracements. The latter of these is a mathematical approach that helps predict the scale of a price correction. I set these targets up front. Once a stock hits my price target, that's it, I'm out. Sometimes you hit your target, or get stopped out, within a day, and that's fine.

I'm happy to re-enter a winning position. Trading is free these days, so why not re-enter? If the trend still looks good once I've taken profits, I'll re-enter. That way, I can stay disciplined about taking profits at the levels I set initially, without fear of missing out if the run continues higher.

It's easier to trade during uptrends. I'm typically looking for breakouts, and in bear markets, breakouts tend to fail. Conversely, it's easier to be comfortable taking a long position on a stock or a group of stocks in a market that's on an uptrend. If markets are going down, then I am a lot more careful with the stocks I'm buying, when I'm buying them and my risk management approach. That said, markets go up in escalators and down in elevators. You can make money more quickly during a downtrend, if you get it right.

Market breadth gives me a clear idea of what's really going on. If an index, like the S&P 500, hits a new high, that by itself doesn't tell the whole story. If the number of stocks within that index hitting new 21-day or 63-day highs is increasing, that tells me it's a bull market. But eventually, the list of stocks hitting new highs will start to decline. Once that happens, I know momentum is running out, and it's time to adjust my strategy. ●

> "By looking at the charts, we're still looking at the fundamentals, but everyone else has done the work. Bottom line is, if the fundamentals look good but the chart looks bad, I'm not buying, so why bother?"

5

Jeff Ross

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Revenue growth is the most important fundamental indicator

Jeff Ross

The founder of Vailshire Capital Management shares how he picks stocks that show promise and recover the fastest following downturns.

@VAILSHIRECAP

Jeff Ross is the founder of Vailshire Capital Management, a hedge fund that has generated a jaw-dropping 23.31% annualised return over the past three years. But that's not all — before Jeff became a successful hedge fund manager, he was a consultant radiologist and a keen trader, and his passion for the markets has never left him.

In this captivating conversation, Jeff shares the secrets of his innovative full-cycle portfolio management strategy, which has helped him achieve incredible success for his clients. He also reveals his FILMS acronym for picking innovative stocks, a powerful tool that has helped him identify undervalued assets and hidden gems that others overlook.

But Jeff's success is not just down to his keen eye for trading opportunities — he also emphasises the importance of taking profits along the way during winning runs, a key lesson that has helped him minimise risk and maximise returns.

I look closely at what the economy is doing to protect my trades. I want to participate in bubbles or volatile markets because they offer the opportunity for large gains in a short timeframe. However, there's also the potential for your trade to lose its value very quickly. I used to use trailing stop losses and this is a great way to secure your exit, but now I pay close attention to the economy, whether it's accelerating or decelerating. I judge that by which asset classes are outperforming and which are struggling.

Traders should take profits along the way. As a professional trader, I don't do this. I keep a very close eye on the signals from my research to ensure that I'm trading assets I think will outperform. But traders, particularly during periods of volatility, are well-advised to take 10% here or 50% there to ensure they at least make their base trade back during the good times. That way, when the crash comes, they have some cash on the sideline to take advantage of the depressed prices. I also start my stake small, then, as my confidence in the stock increases, I'll grow that stake over time.

I use the FILMS acronym to pick stocks. This stands for founder-led, innovative, long-term value creation, master capital allocators and stakeholder-friendly. Founder-led is the only one of these that isn't subjective, and it's my primary criterion. Innovation, value creation, capital allocation and stakeholder-friendliness are somewhat subjective, but I think they're important to pay attention to, because for me they are useful indicators of how a company will perform.

I read constantly in order to find new companies to trade in. When you have megatrends like electric vehicles or artificial intelligence (AI) that will grow over a period of years, it's easy to hitch your wagon to them and do really well over the long term. Within those long trends, I look for the companies that are posting big, sustainable year-over-year revenue increases. I also look at who's running the company. I look at their vision for the

Jeff Ross

future, and ask if I believe in it. I apply the FILMS approach, and when I find a company that ticks all those boxes within a secular trend, I'll buy it.

To me, revenue growth is the most important fundamental indicator. Earnings can be manipulated, so I don't rely too heavily on them. But a company with an amazing product or service that is expanding rapidly, and a market penetration that's going to increase drastically over the coming years, pretty much trumps everything. But it has to be sustainable. If another competitor can swoop in and displace their position in the market, then I'm less interested.

I steer clear of micro caps. There are just too many variables, things that we don't know and things that could go wrong. I like companies in the mid-cap range, with around a $5–10m market cap. If companies of that sort of size have strong sustainable revenue growth, those are the ones that can see gains of two to five times over a five-year period.

I like cash in a downturn. For most everyday traders, that's the easiest way to navigate a downturn, and my fund goes cash heavy during pullbacks. I also like US treasuries and gold, but these 'safe haven' assets don't always function as such. One way I hedge my portfolio against severe busts is to go long on volatility using the VIX. The iPath Series B S&P 500 VIX Short-Term Futures ETN [VXX] makes this accessible to most traders.

Growth stocks tend to recover fastest during downturns. They fall fastest because they have higher valuations during bull markets. But a trend like AI, which will be larger in 2030 than it is today, is going to recover quickly from a market downturn. These are the stocks that have the V-shaped recoveries. I have them on a watch list. When we see big pullbacks, the highest-quality growth companies are the ones I like to bet on once they've fallen, say, 50% or more. ●

> "When you have megatrends like electric vehicles or artificial intelligence that will grow over a period of years, it's easy to hitch your wagon to them and do really well over the long term."