

## Q&A

### SINCE YOU ASKED

Confused about some aspect of trading? Professional trader Don Bright of Bright Trading ([www.stocktrading.com](http://www.stocktrading.com)), an equity trading corporation, answers a few of your questions. To submit a question, post your question to our website at <http://Message-Boards.Traders.com>. Answers will be posted there, and selected questions will appear in a future issue of S&C.

### A CHANGING MINDSET

*I have read a lot of what you have written over the years about trading styles and strategies. Recently, you wrote in Technical Analysis of STOCKS & COMMODITIES about your concerns regarding subpennies and flash trading. You offered some suggestions as to what your traders are doing to offset these losses, but could you elaborate on what traders are doing to continue making profits in today's marketplace? I'm looking for some direction. Thanks in advance. — TraderPatDC*

I did address these issues briefly in the June 2010 STOCKS & COMMODITIES. Noting then that my traders have pretty much stopped “parking” orders on electronic communication networks (ECNs) (to collect rebate money), opting to hit bids and take out offers versus being taken advantage of by high-frequency trading (HFT) and subpennies, this time I'm going to offer something slightly different. Here's an overview of a longer article I'll be putting together for my upcoming trading classes, with the working title of “A Trading Philosophy For 2010 And Beyond: A Changing Mindset — No More Daytraders — No More Scalpers — No More Momentum.”

We have basically evolved into a group of private hedge fund managers. This has happened for several reasons. The days of “dumb money” trading millions of shares per day are essentially over. To get past the dramatic subtitle, of course we will still daytrade (just differently), and of course there will be scalpers (although employing different methods), and we will always address momentum (just not ride the wave, as we have in the past).

Don't get me wrong: Our evolution is not a bad thing overall, it just has to be recognized and addressed. My brother Bob and I have been exchange members/traders since the 1970s and we

have always had to adapt to changing market conditions, regulations, and so on. We have seen the markets go from 99% open outcry to less than 5% — go from manually matching trades, to never touching a piece of paper — from simple equities to options to futures, to all sorts of specific derivatives trading, each having an effect on the overall marketplace. We have gone from fractions to pennies, and now to subpennies (in one form or another). Most important, we have adapted to the many regulatory issues that have presented themselves over the years (short-sale rules, trader licensing, tax consequences, and pattern daytrader rules, just to name a few).

Now to the present and to our idea of the next generation of successful trad-

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ers. We see practically a microcosm of the macro evolution of the securities business. Remember the day when third-party research was the big thing? Remember when learning how to read charts gave you a big edge all in itself? Remember when having a faster computer was a gigantic edge (and it might still be for some of the high-frequency traders)? Remember when having direct access meant profits? Remember when Level 2 reading was the coolest thing ever? Aligning with a top trading firm has been, and will continue to be, an edge — if and only if your firm is diligent in working with their traders. No one has all the answers, but you don't have any at all if you aren't proactive and asking questions constantly.

Everyone likes the idea of being a fund manager. Well, why not become one? Every investor/trader/speculator,



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every market participant, everyone who handles their own money (and we all should) should work to become their own private fund manager. Learn to do most of the tasks that we may have relied on others to do. The information age has made all this possible.

Our traders are taught to do their own research; they are shown the best tools to achieve this goal. They are taught to become their own analyst (why rely on Wall Street-generated reports that may have a bias we are not aware of?). Our traders are taught to develop their own trading plans based on current market conditions. Each trader is responsible for a certain amount of money, so risk control becomes a primary concern. Our traders must learn how to manage the risk of all the money under their control. So with the benefit of using capital, they must also accept the responsibility of tighter risk controls.

Learn to allocate a portion of trading capital to various segments of speculation. Don't leave money in a holding that hasn't budged in weeks or months (better known as “dead money”). Learn the basic techniques that are working currently. Learn how to combat obstacles as they present themselves. Understand and calculate interest and fees for the various strategies. For example, if you're holding a long position naked, paying interest to hold it, consider using the same amount of money for a long/short pair that is generating revenue. If you need more margin or leverage in certain areas, look first at where you as portfolio manager can cut first.

Finally, share your skills with others so that they will share their expertise with you. It may not seem like a big thing, but it means so much to individual traders.

**S&C**