

Traders lie back and discover a winning formula

Good traders know how to stick to a strategy but they're also ready to make the most of opportunity, writes **Shane Nichols**.

The recent contracts for difference trading competition is a fascinating reminder of how a trader's mind-set can generate success or failure.

The competition, with CMC Markets offering a \$100,000 prize for the winner, was judged on the highest percentage return on investment (ROI) over a two-month period of actual trading from May 2 this year.

In trading psychology terms, the competition's goal tempted traders into the wrong mind-set.

Much trading theory discourages benchmarked trading as it encourages outcomes over method, leading to poor judgement and practices. So who fell for the bait?

As it turned out, not many of the leading contestants. They were surprisingly relaxed and traded much as they normally would, says Eva Diaz who interviewed many of the final top 10 contestants for a forthcoming book on the competition. "No one told me they did any extra preparation at all. Almost everyone entered the competition saying they just wanted to know how they would fare against other traders," she says.

Diaz interviewed a leading US trading psychologist who affirmed the laidback approach. "She said it could be a healthy sign that no one got into the competition with a dogged determination to win. This means the traders were ready to take each day in the market at a time

They are not forcing themselves to win or putting any extraneous effort or stress on themselves. It is healthier to have that attitude because it means they are just focusing on the trading and not on winning."

So far so good — but then a funny thing happened in the competition.

For weeks it had been dominated by a certain contestant who built a massive lead — around 2000 per cent — over the nearest challenger. Two weeks from the close, he disappeared from the leader board.

Too much risk, perhaps? One lesson was certain: it's never over until it's over. As the market often demonstrates, expectations can be wrong.

At this point, Sydney-based professional trader Dave Limburg, who had been running consistently in the top 10 but was trading "normally" and held no hope of winning, saw his chance and decided to go all out. He upped the position sizes and the level of risk. Whereas his usual monthly turnover was \$2 million-\$3 million, in the final month it was \$13 million. "In the last weeks I was taking on some huge trades and not sleeping that great," he says. Limburg was the winner with an ROI of 441.8 per cent.

Second was part-time trader Nichole Matthews of NSW, with 408.6 per cent, who also says she stepped up her efforts — the number of trades — when she realised she was in contention for the prize.

Both can be credited with winning



Dave Limburg: he saw his chance and decided to go all out.

Photo: LOUISE KENNERLEY

behaviour — the results speak for themselves — in that they recognised when to amend their normal trading practices to take advantage of pure dumb luck. It goes against trading orthodoxy that emphasises sticking to your hard-won discipline and trading rules, no matter what. Good

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traders are highly self-disciplined.

Yet the ability to adapt and be dynamic within this paradigm can make all the difference. So does the ability to learn from mistakes.

"One of the major mistakes I've seen with the traders [even those who finished in the top 10] was holding on to losses," Diaz says.

"For example, Dave Limburg had a big winning trade that delivered him more than \$50,000 profit. When he re-entered a trade [on the share] and it turned against

him, he held on to a losing position that cost him more than \$33,000.

"So the big win he had in the first trade was almost wiped out with the second trade."

Another mistake was taking profit too early.

"This happened to another player who took some profits too early for fear of turning a winning trade into a loser," says Diaz. He said he had to take profits because of the short timeframe of the competition, but also he was thinking that if he took profits as early as possible it would have contributed to his account already. In the end he said it worked against him because he was not able to capture further runs on the position when he got out of it with only a small profit.

"These traders were open and honest to admit to those mistakes," says Diaz. "They also have a healthy attitude and were readily making changes/adjustments to their trading when they realised they made a mistake."

Lessons learned

■ A CFD trading competition tried to tempt players by offering a major cash prize, flying in the face of most training emphasising method over outcomes.

■ Most traders stayed conservative, but some changed tack when they were doing well.

■ Sydney-based Dave Limburg was the winner with an ROI of 441.8 per cent.