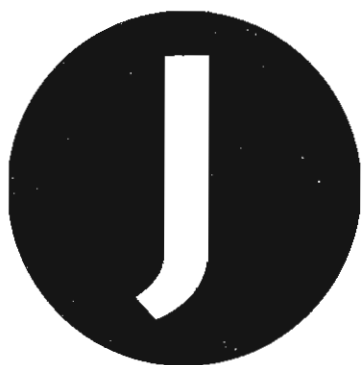


Lessons for the future

Jake Bernstein shares lessons learnt over 40 years of trading the futures and equities markets.



Jake Bernstein is author of more than 35 books on trading, investing, investor psychology, and economic forecasting. He has also held in excess of 500 seminars on trading throughout the world, and his advisory and

consulting service is used by some of the world's largest banks and brokerage firms as well as by professional traders, hedge funds and money managers. Jake lives in the Santa Cruz Mountains in Northern California with his wife of over 30 years. He enjoys fishing, gardening, driving fast cars (safely!) and collecting antiques, and is in the process of writing several novels.

YTE's Kel Butcher spoke with Jake about how he started out in trading, his trading style, lessons learnt and who has taught Jake the most over the years.

So how did you get started in this business Jake?

It was in the summer of 1967. A roommate at college who had a profound interest in the markets tutored me in stock trading. I found the idea fascinating in as much as I had never been exposed to the market, since I came from a very poor family. My friend was not old enough to open a trading account but since I was old enough, I opened the account and he funded it. We bought a few hundred shares of a gold mining stock as our first adventure. We went to the brokerage house almost daily, skipping college classes. We watched the ticker tape excitedly as the stock moved 1/16 of a point back and forth. We were convinced we would make a fortune. It's very funny when I think about it now! After that I graduated to futures trading in the summer of 1968 – egg futures – which is also a very humorous story in itself.

I'd describe myself as a method trader with objective signals and procedures. When I wear my analyst's hat, I'm a discretionary observer and interpreter of market behaviour. In trading my motto is simple – if anything is subject to interpretation or perception, it's not right for me.

Over the years I have come to deeply respect the teachings of Larry Williams. I have known Larry for perhaps 30 of my 40 years in the markets. I have taken from the best of Larry's ideas and experiences and developed my own style. I have also come to embrace many of the principles taught by Joe Granville

Can you tell us about your trading style?

I use an underlying structure I developed myself. I call it STF (setup, trigger and follow through). Within this structure, I apply high-probability price patterns with timing triggers and a profit-maximising strategy.

Tell us about the trade that has had the most effect on your career as a trader – what did you learn from it?

There are two. The first was a cotton trade. It started as a day trade that showed a \$500 loss at the end of the day. I was too stuck in my own ego to take the loss. I added to the trade. I made every mistake in the book and even invented a few new ones. I eventually closed out the trade at a loss ten times larger than I had intended to take. Fortunately that was many years ago and I learned well from it.

The second was a gold trade that I literally forgot about. I entered a few positions on the long side convinced that gold would move much higher. After making a nice profit, I exited one position and forgot that I had the second position on. After a few months, my broker called to remind me that the contract was due for delivery. Since I rarely if ever looked at the statements I got in the mail I did not know I had the position. Nor did I know the profit was huge. I was cool, calm and collected. I told the broker to exit the trade. He called me and in utter amazement said: "Jake, I've been a broker for over 25 years and I've never seen anyone hold a trade that long (unless it was a losing trade), nor have I ever seen anyone make as much money on only one contract...how did you do it?" I replied confidently, "Joe, it was easy. I simply entered the trade and forgot about it!"

Are you a short-term or long-term trader? What advice would you offer to people getting started as traders on the relative merits or otherwise of each?

I'm both. I try to do it all – short term, position trade and day trade. but I'm very selective. My advice to new traders is don't day trade. don't go for the quick profit, don't use small stop losses and don't believe most of what you read or most of what you will be told about how to trade. Some people will be angry with me because I believe

that a good 90 per cent of what traders are taught these days is pure rubbish – or too subject to interpretation.

What markets do you trade?

I consider myself an equal opportunity trader. I'll trade anything that moves. I do not trade forex (cash currencies) or options. All futures and equities are fair game for me.

What makes your trading style different from others? What sets you apart from other traders?

I pride myself on methods that are 100 per cent objective and not subject to any interpretation whatsoever. I do not use words such as "looks like...might...could bottom...could top...let's analyse this...let's interpret this..." In my mentoring of traders I am purely objective and I do not accept any matters of opinion. Opinions are like children – they will cause you joy and heartache and they will cost you money because you are committed to them and they destroy clarity of thought.

Do you believe trading can be taught?

After having mentored hundreds of traders, I know trading can be taught – there are very few successful psychic traders!

Can you tell us how some of your students have fared in the markets over time?

Assuming that my students have come back to me with the truth, many have fared extremely well. But I can only go on what they say. I can tell you that I have seen so many of them change greatly for the better...and these changes seem to have filtered into their personal lives as well.

You have extensive experience teaching traders from large institutions as well as private traders. What do you believe are the advantages and disadvantages for private traders?

I have experience with both but I hasten to add that when I take on a new student I rarely ask them their profession. I respect their desire for privacy. Nor do I want to be biased or influenced by them. I have had students from all walks of life, and from extremes of the socio-economic scale

What qualities separate winning traders from losers?

Commitment, willingness to give up old and losing ways, the ability to 'not care', the willingness to not be too smart, and persistence, are among the top qualities. I find that airline pilots tend to be good



traders. I find that women tend to be better traders than men are, because they don't have as much ego or pride as men. When a woman takes a loss, she can accept it as part of the process. When a man takes a loss, he often feels deeply in his psyche that he has lost part of his anatomy (thank you Dr Freud).

What is the most important advice you would offer both novice and experienced traders?

Deal in reality – avoid market myths – be brutally honest with yourself and keep it simple.

What does Jake Bernstein 'get' from the markets?

I love my work. It gives me energy, fascination and convinces me daily that we still live in the days of the cave dweller.

How has trading made an impact on your lifestyle?

The markets have allowed me to achieve more than I could ever have achieved in my education in clinical psychology...they have allowed me to live well, to raise three fabulous children...to rise from my utter poverty as a child and to give back some of my knowledge to others.

I pride myself on methods that are 100 per cent objective and not subject to any interpretation whatsoever. I do not use words such as "looks like...might...could bottom...could top... let's analyse this...let's interpret this..." In my mentoring of traders I am purely objective and I do not accept any matters of opinion...



If you were starting out today as a beginner trader, what would you do differently from when you started out 40 years ago?

I'd find a teacher. No one taught me. My daddy wasn't rich or educated. Education – quality and real education – is the first key to success. The world of commodity trading functions on the ignorant trader. In a zero sum game the smart trader takes money from the ignorant trader. Ignorance abounds and professionals bank on it. The professional trader generally has no interest in educating the public – after all, why educate the 'enemy'? I like to think I'm different. I believe that education is vital if the markets are to function properly. I also believe that the futures exchanges should take a more active and directive role in educating traders. This isn't happening and I think that's a sad commentary given that the exchanges have made a huge amount of money. As traders, we should all give something back – that something is education.

Do you have a favourite trading rule?

I have so many I don't know where to begin...they are all my favourites...a general one is this: 'Be careful what you tell yourself about the markets, because you may begin to believe it'.

What does the future hold for Jake Bernstein?

I try not to think about the future. I have so many things I'd like to do. Currently I'm writing three novels above and beyond the near 40 books I have had published on trading.

What should people look for in a trading teacher to ensure they are getting someone who 'walks the talk'?

Look for longevity, commitment and consistency. Get to know the person you are dealing with – see if they are objective in their work – make your own decisions – believe what you see not what someone tells you to believe. **OTE**

Jake Bernstein will be in Australia in February 2009, conducting seminars in Sydney, Melbourne, Brisbane and Perth. Details are available from adest.com.au or by phoning 1300 552 182.

Kel Butcher is a full-time futures, equities and derivatives trader. He is the author of 'A Step-by-Step Guide to Buying and Selling Shares Online'. He also acts as a mentor and coach to other traders. He can be contacted via email at kel@tradingwisdom.com.au