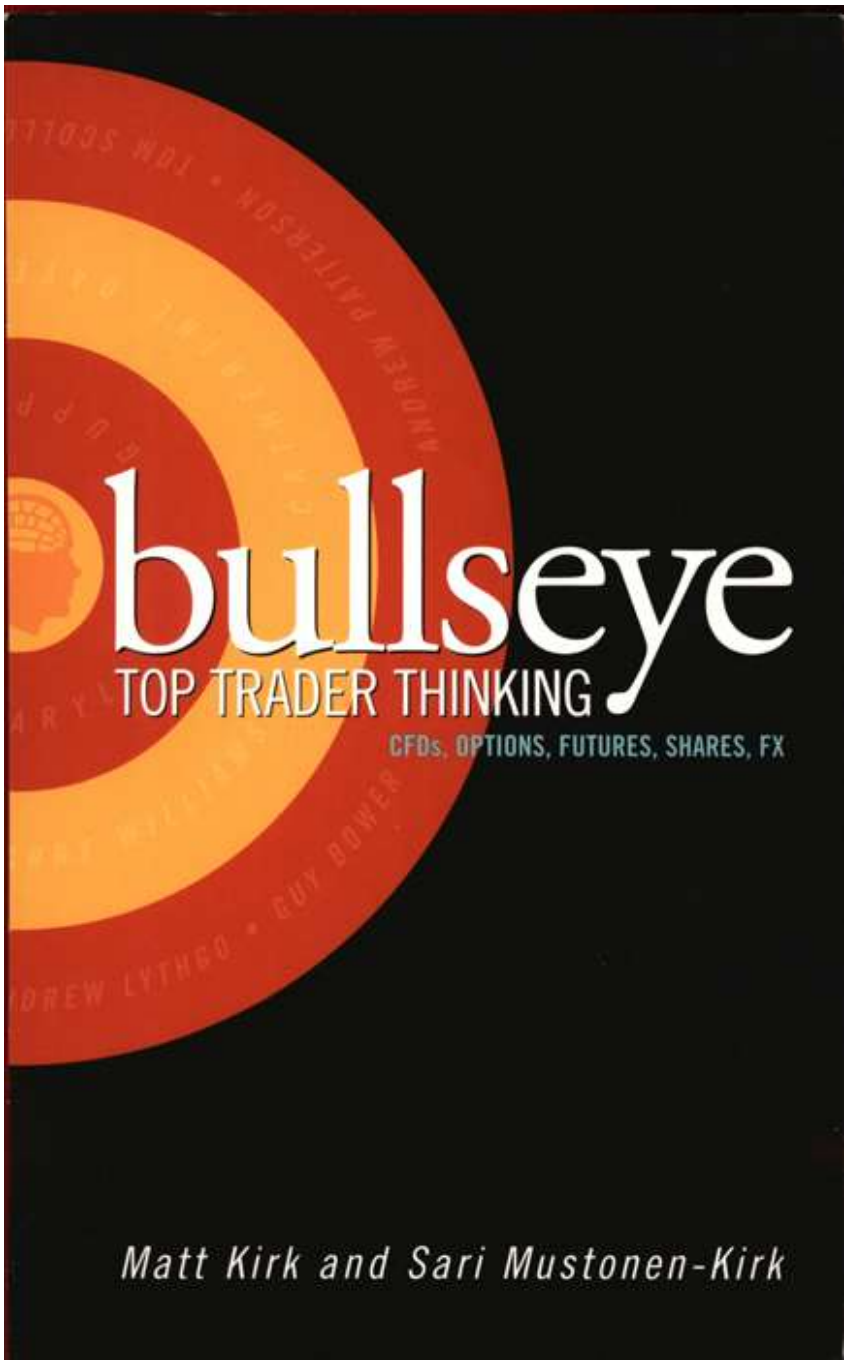
bullseye
TOP TRADER THINKING
CFDs, OPTIONS, FUTURES, SHARES, FX
Matt Kirk and Sari Mustonen-Kirk

This is an excerpt from the book Bullseye: Top Trading Thinking. For the complete book visit:

www.MasterClassTrader.com

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bullseye

TOP TRADER THINKING

CFDs, OPTIONS, FUTURES, SHARES, FX

Matt Kirk and Sari Mustonen-Kirk

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Chapter 10

Big picture thinking

He, who every morning plans the transactions of the day, and follows that plan, carries a thread that will guide him through a labyrinth of the most busy life.

Victor Hugo — writer

Knowing what you now know about the importance of getting the right fit, you will have been building a picture in your mind about what type of trading style might work best for you. It's time now to take a step back from the mechanics of trading to check for overall fit with the bigger picture of your life. It's all well and good to become a great trader and make consistent profits from your activities, but what are you going to do with it all? How are you going to spend your time? What's it all for?

Chances are that not many traders even have a real plan (that is, a guide to what to do with the results of their trading relative to the rest of their assets) and are stuck at the trading system level, mesmerised by the entry or exit signal facing them in that moment. This chapter attempts to clear things up a little by examining your bigger picture from a holistic point of view. We'll then move on to talk about wealth planning, your trading mandate and the role of your trading system within your plans. Finally, the panel members will give their views on these topics.

Define your target

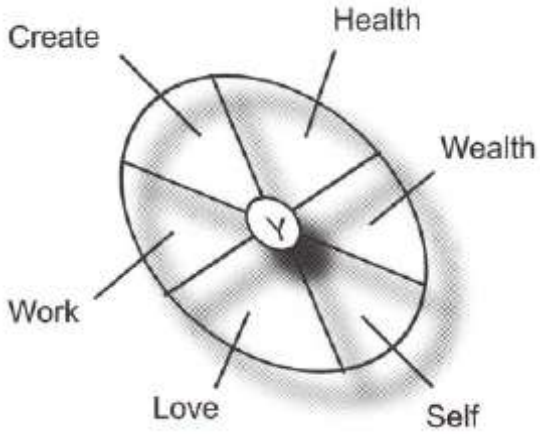
In any planning process, the first step is to set the ideal (or the target) you're going to start aiming for with your plans and goals. The clearer the target, the greater the chance of reaching it; the more reasons for reaching the target, the greater the chances still. Ironically, most people know what they don't want, but not many can clearly articulate what they do want. t can be a very illuminating exercise to sit down and deeply consider what you want. If

you completed the ideal day/year exercises early on in the book, you probably have a clearer idea than most, and if you've been doing all of the exercises throughout *Bullseye,* you're miles ahead of the park.

The Personal Wheel™ — your guide to creating a better bigger picture

Using the Personal Wheel™ (figure 10.1), developed by Sari for our personal development website <www.urok.com.au>, you can quickly develop an overall picture of how you want your life to look. It's entirely up to you whether you want to complete this section and you can, of course, just think about it, but we thoroughly recommend giving it a go. The objective here is not to put any time limits on achieving the ideal. We are not creating goals at this stage of the game — rather building an overall picture, or vision, of your life.

Figure 10.1: The Personal Wheel™



To start clarifying your personal target, create a brief list of what your absolute ideal is for each area of your life using the Personal Wheel™. Imagine a giant magic wand has been waved and you are now already in your future. The idea is to include as much detail as you can, as quickly as you can, describing all of the things you have, the way you are, and most importantly the way you will feel when all of the things you've described actually are your reality. We'll be working more specifically on the work and wealth segments later in this chapter so you can focus most of your energies there if you like. That said, if you complete all the segments, you'll have a better chance of seeing your life from an overall perspective, thereby minimising your risk of setting conflicting goals. Describe your ideal self in each case in the present tense, using words like, 'I am', 'I have', and 'I feel I do'. Imagine yourself as if it is already so. Remember, no limits.

Health

How would you feel if you were now your ideal physical self? What do you look like? What's your level of energy like? What do you eat? How do you keep active? How long do you plan to live? Write the answers to these questions and anything else that comes to mind.

Wealth

How would you feel if you were now your ideal wealthy self? What do you own? How much money do you make? What type of investments do you have? How are you performing as a trader? What does your wealth allow you to enjoy and do? Do you share your wealth? Who with? How does this make you feel? Write it all down here. Dare to dream.

Self

What are you like as a person? Are you peaceful, powerful, or both? What kind of feelings do you experience on a daily basis? How are you growing as a person? What are you learning, experiencing, discovering? If you were your absolute ideal character and personality how would others describe you? How do you feel about your ideal self?

Love

You are now experiencing your own perfect idea of love and harmonious relationships. Who is in your life and how do they treat you? How do you treat them? What are your friends like? How do you communicate with others? What type of people do you know and associate with? Describe your perfect world connected to others. How do you feel?

Work

Life finds you in your own ideal expression of work — be it paid or unpaid, employed or self-employed. Describe your work. What do you do? How much do you earn? What are you the best at? Are you a full-time trader? What type of trader are you? Do you trade on the side and do something else as well? How does your work make you feel? What do you love best about your work? How does it fit in with the rest of your life?

Create

How do you express yourself in your ideal world? Is it through your trading? Do you write, sing or play sports? What is your creative outlet? Do you travel and experience new cultures and cuisines? In your ideal world, what do you have time to do that you've always wanted to do? What are you learning, doing or creating that's just for you?

Why?

Looking back on all you've just written, why is it important to you? If you now had everything on your lists above, and you felt immediately all of the feelings you'd love to feel, why would that be so fulfilling? What do you think is the main reason you wish to create the life you've described? How committed are you to making it happen?

Many of our clients and web members who have completed this vision inventory using the Personal Wheel™ commented on how much clearer their overall purpose became as a result. Everything seemed to fit better. Just as many again have commented on how miraculously more things just started to 'fall into place' once they became totally clear about their bigger picture.

Having now dreamt up your ideal life, you might like to go to <www.urok.com.au> and sign up as a free member. Via the members' section, you can take the personal inventory and create a snapshot of where you are today in relation to where you want to be tomorrow. This process can highlight clear gaps between your present reality and your future desires, which you can then use as a starting point for future goals and plans. In the next chapter you'll create a list of all those objectives and goals.

Wealth creation

Moving on now to the next level of planning and the subject of wealth creation or investment planning. We're not covering this in any detail here as it's really something that's better discussed with your financial adviser or estate planner. There are a number of good books on the market to take you through simple wealth planning strategies, for instance, but most people will benefit from a visit to a professional. If you do engage the services of a financial planner, it may help to look back to the lists you just created in the wealth and work segments to immediately form a picture of your wealth creation objectives. The combination of the wealth (how much you want) and the work (what you're willing to do for it) segments sets the stage to determine how you might best structure an investment plan that fits you well. Your planner can then start suggesting some appropriate investments to help fund those wealth and work bigger picture objectives.

As a top trader, you've already given serious consideration to how your trading activities might best fit with your overall wealth creation plans. Here our panel answers that same question.

Sari: How does trading or investing in financial markets fit in with your overall wealth creation strategy?

Larry: It's my main strategy and as I've had some success with it others are willing to pay to learn. If I ever tank (fail) as a trader I will not be able to lecture. You are only as good as your last gunfight.

Andrew L: It has until now been my only source of income, so I guess it was a 100 per cent fit.

Guy: It is part of it. As I mentioned before, all my income is derived somehow from the market but only a part of it from outright positions in the market. This is part of my diversification strategy. I have several businesses each attempting to derive an income in their own particular way.

Catherine: I think the more money I have the less aggressive I will be with my trading. But I haven't got to that point yet.

Andrew P: It's really the key driver of my wealth creation strategy.

Tom: The markets are integral to this. Apart from investment property, the markets are my focus as opposed to, say, doing entrepreneurial deals.

Daryl: It is central. It is the cleanest, most efficient and effective way of growing capital with the effective management of risk.

Sari: What tips would you give someone designing an overall trading or investment plan?

Andrew L: I really wouldn't know as I have never really had a plan. Once again, though, it is very important to base it on your personality and preferred lifestyle.

Guy: There are no short cuts here. The way I have done it is trial and error. This means learning as much you can about different styles and methods and finding what works for you.

I certainly would not recommend spending thousands on those seminars that claim to provide all the answers, because they simply do not. You can save a stack of money and time by buying just a few books or doing courses online.

Thinking about the thousands and thousands I have spent on books and seminars and training, I think I could cut it all down to a fraction of what was spent and still have the same result.

Also be aware education is not just something you do when you start. It's ongoing. I truly feel a HUGE amount of traders fail because they get to a point where they think they have learnt enough and now they just have to trade.

Also, get organised. Treat trading like a business.

Oh, one more, become an analyst, even if it's just for your own reading. Write reports on the markets you want to trade. Post them on a blog if you want or just keep it to yourself. Writing things out will help clarify so much.

Catherine: Spend some money on education but allocate more money that you will inevitably lose when you start trading. When you've lost that money — get a trading coach.

Andrew P: Write down as much detail as you can and don't be afraid to add to it or change it as you go — though any changes should be carefully thought through, not just change for change's sake!

Tom: Document it — add and refine as needs be, but see that process as more one of improving it, rather than [making] wholesale changes. Remind yourself of your plan each time you sit down to trade. Keep it [as] simple as possible. Be accountable to it.

Daryl: Focus on consistent return on capital from a smaller range of stocks. You do not need to master the market. You only need to master one small aspect of the market.

Choose techniques and follow mentors who use techniques that are appropriate for your [account] size. If you can buy a seat on the company board, then by all means use Warren Buffett approaches. If you cannot do this, then his approaches will not work for you.

Sari: What is your opinion of a balanced investment portfolio?

Larry: Trash. What is balanced today is out of balance tomorrow. That is chasing a fad. Buy value — it gets rewarded.

Andrew L: Great idea but I never had one and I am paying for it now.

Guy: Well 'diversification' is a fantastic idea. That said, diversification does not simply mean spreading your assets into everything and anything. In trading, it means

understanding correlations or the relationship between one commodity and another. In my opinion, you can over-diversify.

Most people already diversify. They have a job. That is one source of income. They have a house. That's an asset. They are diversified.

The idea of 'balance' I'm not so sure about. I know they say X% in stocks and Y% in property etc, but I think that conversation is more academic, or more to the point: marketing fluff for fund managers.

Catherine: I don't actually agree with the idea of a balanced portfolio. I think professional traders go where the money is and that tends to be cyclical.

Andrew P: I stick to stocks. That's what I know. So as a trader, I'm not really looking for a balanced investment portfolio.

Tom: For me? The bulk in long-term assets — say, 60 per cent, including bricks and mortar; say, another 3 0-40 per cent in medium-term plays, with the balance play or sport money — where I am constantly exercising my skills and expertise.

Daryl: The idea is based on intellectual laziness. It is an extension of the idea of diversification, which, in turn, is an inelegant excuse of poor analytical ability. An exchange traded fund gives a more effective return than a balanced portfolio, and a greater return than most fund managers. Yet few investors use this instrument.

The trader's mandate

Just as we suggested you do if you engaged the services of a financial planner, you can start by reviewing the work and wealth segment answers you gave earlier in this chapter to create a trader's mandate uniquely fitted to you.

Commonly called the trader's plan, the trader's mandate is often wrapped up as part of a trading system but we feel it has a unique role to play as an overall guide, with the systems acting as specific instructions within that guide. A mandate is generally described as an authoritative command, order or authorisation. The types of things your trading mandate may include are:

- Overall trading and investment philosophy.
- Accompanying 'permissions' about where, how and why trade.
- Total trading capital.
- Overall return objectives and risk management plans.

Your trader's mandate may contain multiple trading systems and describes how much may be allocated to any one system. A system is generally defined as an organised group of ideas or principles, a coordinated method or a procedure. Your trading system describes the way in which you enter and exit markets in search of profit opportunities.

⊙ How, why and when you enter and exit the specific markets permitted under your trader's mandate.

⊙ The time frame for holding open positions.

⊙ The risk/reward ratios for each market and for the individual trades.

⊙ Trade money management..

Generally only a portion of your trading mandate is allocated to any one trading system. To illustrate, Matt has a trading mandate that allows him to trade using three discrete trading systems. Each system has been designed to achieve results under different market conditions, all working together to generate the desired return objectives prescribed by the mandate as described in table 10.1.

Mate's trading mandate

Table 10.1 lists just some of the higher level authorisations under Matt's trading mandate.

Table 10.1: Matt's trading mandate

Trading philosophy	Generate a blended return based on three complementary systems trading global commodity markets.
Return objectives	30 per cent per annum.
Risk/reward profile	Risk averse.
Markets permissible	For short-term opportunities — any market with adequate ranges, daily volatility and good liquidity. For medium-term opportunities — any market with the potential for an explosive move in either direction.
Profits	50 per cent reinvested into trading account and 50 per cent divested quarterly into real estate portfolio.

Please note, Matt's trading mandate is designed to give you a starting place to design your own; it is not a complete trading mandate.

Matt's trading systems

1. TrendCatcher™ intra-day trading — designed to generate quick, low-risk profits on a daily basis.

2. TrendCatcher™ short-term — designed to generate low risk profits on a short-term basis.

3. LTO long-term options program — designed to generate substantial profits with low risk over a medium-term basis.

Together, systems one and two are designed to generate about 20 per cent of the mandate's prescribed return objective of 30 per cent per annum, with the remaining 10 per cent coming from system three.

Don't get too hung up on these terms, though. For now it's enough to have defined your overall vision and how trading fits in with those bigger picture objectives. The only thing we'd suggest is going back to your systems chapter answers to check for cohesion with your answers in this chapter.

This is an excerpt from the book Bullseye: Top Trading Thinking. For the complete book visit:

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