Jarratt Davis
How To Trade a Currency Fund
About the author

Ranked by Barclay Currency Traders Index as the second best performing FX trader between 2008 and 2012, Jarratt Davis wrote How to Trade a Currency Fund to share his journey from ‘Forex novice’ to a fully fledged Forex Fund trader.

Establishing his career in 2006, he mastered the art of FX trading by teaching himself techniques online, becoming one of the few self-taught traders to reach an institutional level. He traded on behalf of companies and funds in the financial epicenters of Hong Kong and London, pumping trades worth up to $10 Million a time on a daily basis, and today he is regularly ranked within the top 10 performing currency traders.

Now working with investors, traders and industry professionals, Jarratt and his team help them achieve above average returns from their FX trading or investments. Jarratt Davis is also a regular commentator for international financial press. He has been featured in FX Trader magazine, Currency Trader magazine, FXStreet.com and Bloomberg TV.
Table of contents

How to Trade a Currency Fund

Chapter 1 – Why We Trade 04
Chapter 2 – Learning to Trade Professionally 07
Chapter 3 – Building Credibility 14
Chapter 4 – Finding Funds 22
Chapter 5 – Trading at an Institutional Level 27
Chapter 6 – Psychology of Fund Trading 34
Chapter 7 – Step-by-Step Plan of a Successful Fund Trader 41
Chapter 8 – Living the Dream 44
The phone rang out twice before I managed to put down my drink and answer it. It was a conference call with my fund manager and the owner of the brokerage house that we were trading through.

As I sat there listening to the nuances of slippage and bank feeds, I looked around and realised that I was sitting in a luxurious hotel lobby, in a permanently warm climate, sipping a cocktail at two o’clock in the afternoon...nice.

What was even better was that I had just received my commissions from last month’s trading and was now truly able to live wherever I wanted, whenever I wanted.

Later that day I would take a stroll along the beach and find a letting agent that could hook me up with a nice apartment with a pool overlooking the ocean. This is exactly why I’d started trading in the first place; for the freedom to live wherever I wanted, whenever I wanted to. Everyone dreams of living in paradise; of a life where the view from your window echoes that of a holiday brochure. I was no different.

Looking back, the journey to my success had seemed very long and hard. It had taken me almost two years from the time I had first heard about Forex to the time I was trading professionally for a living. In hindsight, that may not sound like a long time, but it was one of the toughest and seemingly most drawn-out periods of my entire adult life.

At one point, I was living back at home, and eking out an existence each month on what most people in the western world would consider an average wage for a single day’s work. I didn’t want to get a full time job. I knew that once I was in that cycle, I would get comfortable and probably end up losing sight of my goal of becoming a professional trader. Complacency is ambition’s greatest enemy and I didn’t want a contented lifestyle to dim my focus. I needed to focus every day and continue my learning.

I would spend, on average, eighteen hours a day staring at my computer screen, absorbing as much
information as I possibly could. I strove to find a system that would consistently give me winning trades and exponentially boost the size of my account.

I joined forums and basic education websites where trading concepts were discussed at great length and I would experiment with various strategies that I hoped would bring me the pot of gold at the end of the rainbow.

In essence, I was searching for something that would allow me to turn on the screens each morning and make profitable trades on a regular basis. Of course, I knew that I would never be able to win all my trades, but I also knew that the majority of them should be profitable.

As all of this was taking place, I was living off the savings generated from my previous business (which I had sold the year before) and I was also participating in some part-time work on the side to top up my income from time to time. All the while, people around me were telling me that trading was a mug’s game, and that it would be impossible to make any consistent returns over time. At one point I was even told to just give up and get a “proper job” because trading clearly wasn’t working and was probably never going to work. Although at the time I did not welcome those negative comments, now I am grateful for them. Now, looking back, it was those types of comments that drove me forward and powered me through those dark days.

I always think it’s funny when people say how lucky I am and how they wish they could do what I do. If only they knew that luck has nothing to do with it.

This is the story of my own journey, but mainly it’s a detailed guide to becoming a fund trader and trading other people’s money. This book not only shows you how to do it but where to look for investors, how to select your broker, and what kind of experience/qualifications you need or don’t need in order to do it.

I will also go into details about things most people don’t even consider, including myself, until they’re faced with the problems. Intertwined in all these lessons is the story of how I went from running my own cleaning business to trading 10 million dollars at a time in the Forex markets.

My aim with this book is to give you the blueprint for doing the same thing if that is the path you wish to follow, except you will have the steps that actually lead you there clearly laid out in front of you.

It is not padded out with useless descriptive fluff. If you’re looking for a gripping novel, you’ve come to the wrong place. The book is short, straight to the point and contains information you can take away and actually use.

But before we get to that, there are a couple of major issues that constantly get thrown at me, so we will get those out of the way first.

Isn’t trading a zero sum game? If someone makes money and someone else loses, how can this provide a consistent income?

Every business involves human competition for a finite piece of the pie; with the winners making money and the losers going broke. It may not be moral, but that is the sad state of our economic system. Trading is simply a more efficient version of that system. That is why you will never have a 100% winning accuracy. One thing to bear in mind with trading, however (unlike most competing markets), is that not everyone in the currency markets is speculating for pure profit. In fact, a vast section of the market is trading for other reasons; such as genuine currency exchange, holiday money, staff wages abroad, the implementation of economic policies and so on. This creates opportunities as the prices move up and
down, which speculative traders can take advantage of.

The fact is that if you follow some simple steps you can make consistent profits.

**But I don’t have any financial qualifications; I never worked in a bank.**

These are all things we have in common; I dropped out of college, got mediocre grades at school and would never, ever have been considered a suitable candidate according to the current bank hiring protocol.

Remember, however, that the fact remains that I still managed to pull it off without any kind of guide or book. Just by reading this, you are already two steps ahead of where I was when I first started.

To put it simply; if I can do it, so can you.

**If you can trade successfully, why did you even want to trade other people’s money, or teach people how to do it, anyway? Why not just grow your own account and get quietly rich?**

This is probably one of the most common questions that are thrown my way, and it always makes me smile. Why? Because this question almost always comes from someone with totally warped expectations of trading.

The fact is that trading is a business that must be taken seriously. As we have already mentioned, it is a perfectly efficient market where niches rapidly come and go and everyone is competing to make the same available profits. This means that super high returns are either impossible to achieve or impossible to sustain without massive risk. Remember the old saying; ‘the house always wins’. In other words, if you have super success but continue to take the risk, you will eventually lose it all. The appropriate way to trade consistently for a living therefore, is to find a niche, but trade at very low risk and exposure. By doing this, you will not blow your life savings if the niche ceases to exist.

Trading for a fund gives you access to large amounts of capital; which means that you can make lots of money, but in terms of your overall capital the risk is still very small.

Teaching other people how to do the same (providing you are skilled enough and possess the ability to trade and teach competently) also provides another revenue stream which is stable and consistent. Don’t get me wrong; it won’t make you rich, but if that is your goal, it will be quite a few years before you can comfortably turn away an extra 10 - 20k a month.

Remember that as long as you are honest and have actually traded successfully in the first place, there is nothing wrong with trading other people’s money or building a business teaching people how to do the same.
If you haven’t spent twenty years working on the Foreign Exchange desk at Goldman Sachs or you don’t have a Harvard PhD in Finance then the chances are your journey into the world of trading Forex begins at the Google homepage. Luckily for us, we live in an age where much of our education can be found at the click of a mouse. In spite of our ‘online focused’ world however, not every page you click will have your best interests at heart.

Google (or similar search engines) will instantly expose you to thousands of products and services ‘specifically designed’ to help you make profits from Forex. Just like they do for every ambitious hopeful, these virtual promises will seem extremely lucrative. Keep in mind, however, that most of these products or services are, at best, a waste of time, or at worst, an outright scam. Most of them are designed to simply part you from your money as quickly as possible. I am sorry to be the bearer of bad news, but better now than when your wallet and bank account have been drained of their contents.

So, if most of the services on the internet are rubbish, where do you go for a good quality Forex trading education? More importantly, what concepts should you try to learn?

The purpose of this book isn’t to promote any particular product or service, but to help you make good decisions that will bring you closer to achieving your overall goal of becoming a professional trader.

The keys to trading consistently can be broken down into three main categories which, if mastered, will definitely place you among the leading contenders to find trading success.

First of all, the biggest obstacle and reason why so many new traders fail is the psychological aspect of trading. This is the one thing that must be addressed before you can hope to trade other people’s money successfully. The bad news (sorry) is that these psychological issues are amplified when you are under the pressure of fund management. It’s always a good idea to find courses and publications that will help
you recognise these problems and then provide solutions to them.

Perhaps one of the very best coaches in this field is Mark Douglas, and specifically his book, *Trading in the Zone*. This book offers unique insights into how training your mind and your view of the markets can really help your perspective on issues such as losses and draw-downs. His courses do tend to be expensive, but the prices are justified by their excellent quality.

As with everything in life, you get what you pay for and anything from Mark Douglas is worth a few extra pounds. In fact, it was only when I watched one of his seminar presentations that I really turned the corner in my own trading.

If you don’t at least understand the concept of trading psychology and why it’s so important, you will never make it past the hurdles that it presents. What most struggling traders fail to realise is that deep down, at the very heart of all their trading woes, are issues of psychology. Have you ever wondered why you can’t seem to find a decent trading system or why you fear taking trades? Maybe you have questioned why you were doing so well and then all of a sudden your account was destroyed. Or perhaps you have concluded that trading is a mug’s game and consistent profits are impossible.

If ever you have stumbled across any of these concerns, then you are amongst the majority. Many people don’t realise this, but all of these are common issues of trading psychology. You should make sure that you spend enough time grasping the concepts of trading and tuning your mindset to that of a professional. Don’t just pay lip service to this; really make a concerted effort to live and breathe it.

The second most important concept in successful trading (and especially in trading other people’s funds) is the concept of prudent risk management. The notion of risk management is age-old and gets huge coverage in trading courses, seminars and books. Ninety-five percent of new traders, however, still blow up their accounts and lose all of their money.

Why is this true? To give a direct answer, most people are either ignorant of the importance of risk management, or worse, they only pay lip service to its merits. In other words, people agree that it is a vital element of trading but continue trading contrary to that viewpoint. The unfortunate thing about the scenario of traders going broke through bad risk management practices is that the concepts themselves are among the simplest in trading.

When I was learning to trade, I never had a problem with risk management because I was always too worried about losing all of my hard earned money. Making my first million came second to that.

Over the years, however, I have met and worked with many traders who have provided me with countless horror stories.

By completely ignoring sound risk management principles, some traders have lost £250,000 (30% of their total equity) in a single trading session, and then made it back the following day! These kinds of roller-coasters are not uncommon and can even give the impression that the trader riding them is actually on top of his game. It may seem that the trader is some kind of maverick that can bend and break the rules and always come out on top. This perception is very dangerous; not only to us and our own trading, but also to potential clients. These are the people who will lose a lot in terms of money, credibility and future opportunities.

It’s very important to think about how similar we all are as human beings, which brings us back to psychology and it being the biggest reason why ninety-five percent of people fail. The majority of people are unsuccessful because as human beings we tend to think and act in the same way. There is a trader,
for example, who promotes himself by sharing his trading story. The story is a true and verified one; he turned $10,000 into almost $2 million in around three years.

What is your initial reaction to that statement?

Do you want to buy his course?

Does he sound like the kind of trader you want to be?

Shortly after this amazing feat, this trader started his own hedge fund which did nothing but lose money. Unsurprisingly, it was closed down after a couple of years. Why? Because the original feat of turning small amounts into huge amounts was mainly due to luck. In those days, he was risking far too much and getting rewarded for it, which is just as likely to be punished for it. After all, on the end of every single move there is a buyer and a seller; neither of whom has any real clue where the market is going next.

Our initial reaction to these events is usually positive, but for a trained risk manager, it’s a much more disapproving tone. Generally, if a trader makes huge gains against small initial investments, they are usually considered lucky rather than talented. Furthermore, the only way to prove talent is through time, and unfortunately, there are not many traders (even the most famous ones) who can say they have not gone broke at least once. With that in mind, it’s absolutely critical that you focus your energy on learning and more importantly, implementing sound risk management principles.

You don’t usually have to pay large sums of money to do this, as the internet is littered with articles and coaches that will happily train you in the art for very little cost, if any at all.

Nonetheless, I did learn a massive lesson in how most novice investors and traders view risk management, and how that viewpoint can cost people their entire life’s savings.

I had been trading quite successfully for around six months, but still had no trading capital or income. I had, however, found a new website which allowed me to give my trading signals to other traders who just wanted to follow someone else who made a profit. The site was called www.GFsignals.com and still exists to this day. I must point out, however, that when I first started trading through them, they had far fewer traders and the competition was much lower.

The website solicits a very simple process; each week I would input my trade calls and anyone who chose to subscribe could follow my trades. At the end of each week, the results would be posted and the top performers would stand out and get more subscribers. At the same time, the traders who performed at the poorest levels would fall to the bottom of the pile.

At the peak of my trading signals service, I had over thirty subscribers each paying £150 for my trades, which meant that by the time the signals company had taken their cut, I was making over £3000 per month. This income allowed me to remain at home in front of the charts, which in turn allowed me to continue my education and focus on even more profitable strategies. This was crucial because despite the fact that I was making regular pips, the way I was doing it was totally unsustainable, and if combined with poor risk management, would almost certainly result in an utter disaster, as I was about to discover...

I had been sending my signals for almost six months, and had been consistently one of the top performing traders. I was making a very consistent income from my subscriptions and this income even allowed me to open a very small live trading account from which to start my journey towards becoming a professional trader.

One day, however, something happened that completely altered my perception of trading and more
importantly, taught me how other traders are usually totally unprepared, and that risk management is a truly vital piece of the trading puzzle.

My method at the time was based on higher timeframe trading and waiting for a currency pair to start moving away from either an overbought or an oversold situation. I would scan the pairs each night and then identify the pairs that were ready to start moving either up or down. I would then place my trades with a time-based stop loss covering the whole day and take profit levels the same, which meant that I would leave all positions open until the same time the next day and collect my pips. The principle at the time was that any losing trades would be covered by the winning trades because all trades that were entered had a slightly higher chance of going my way than against me.

What I failed to realise was that the traders following me would soon decide to ramp up their leverage and risk exposure. You can probably see where this is going but at the time I was making regular consistent profits every day (at one point I was averaging around 600 pips per day) and the method seemed solid.

So I continued, until one day it all came crashing down.

I had several open positions and a few of them started to run against me, badly. I can’t remember the exact details now, but it was several hundred pips, which for me was actually OK because I wasn’t trading with any leverage. For one particular follower, however, it meant his whole account got wiped out.

I still remember receiving the email and seeing that he had lost £50,000 (his life savings!). The ironic thing was that the positions turned around and actually ended the day in a profit, but because of his over-leveraging he just didn’t have enough margin in his account to sustain the drawdown.

This experience alone, however, was enough to make me stop dead in my tracks and re-evaluate exactly what I was doing. Yes, I was technically profitable, and yes, I made profits most days, but the fact was that if people were going to over-leverage and blow up accounts, it wasn’t worth it. From that day on, I stopped giving exact trading signals for people to simply follow. I also vowed never to do it again. If I was going to help people trade Forex, I would teach them how to do it for themselves.

The other lesson I learned was that when it comes to your trading account, risk management is literally the difference between life and death.

From my own trading experience (and particularly by meeting and working closely with other traders), I have come to the conclusion that the ones who tend to last the distance are the ones who don’t make particularly spectacular returns (due to their low risk). The ones who do take the risk, however, almost always get caught out and subsequently, end up broke. One other common theme that I have discovered is the differing attitudes to leverage between novice traders, educators, coaches and professionals.

A successful professional will use no leverage at all (or at least a very tiny amount but never more than 2:1) whereas a novice trader will attempt things like risking 3% per trade and compounding their size. This only leads to huge losses and a shortened career. On the other hand, avoiding leverage completely tends to lead to smoother equity curves and more prolonged trading careers. In fact, if I were to sum up the whole risk management principle in one sentence it would be: “Avoid the use of leverage and always remember that there is no such thing as not enough profit.”

The final piece of the puzzle is your trading system. This should be the least of your concerns (which is why it’s last on the list of things to learn). However, most people make it their number one priority, which again, is why most people fail.
This concept is probably the least understood by the majority of novice traders. It goes a little something like this: a trader searches high and low for a system, finds one that looks brilliant, watches it for a few trading sessions and sees its brilliance in action. Then the trader begins trading it live, at which point its brilliance seemingly vanishes and it does nothing but lose. The system is then dumped and the whole cycle starts again. Sound familiar? That’s because it’s the same cycle that almost all novice traders go through. Why? Because what the trader is looking for can never be found. Most traders place the importance on the system and thus believe that in order to achieve success they must have a system that never loses or one that can achieve a ‘hit rate’ that is consistent and stable.

At the very start of my career, I actually fell into this trap and probably wasted a solid year in this ridiculous, never ending cycle. As is often the case, however, I encountered people who had been stuck in the same infinite cycle long before I found trading and are still trapped to this day.

One person who I met and worked quite closely with in my early days was literally obsessed with developing a method that didn’t lose. He became known within our group for his catch phrase, which he used when describing his system: “It never ever fails.”

The peculiar thing about this guy was that when I first met him, his system was supposedly bullet-proof. Nevertheless, I managed to wipe out an entire account trading it and every three months the entire strategy was revised or altered. As you would expect, the new version would always be better than the last even though none of the versions “ever failed”!

This guy has been in this cycle for well over fifteen years and I can confidently predict that he will be in it forever (or at least until he concludes that trading is a mug’s game and that it’s impossible to make a consistent profit). In his mind, the key to achieving his dream of trading success is in his system.

So, am I trying to say that the system is insignificant?

Well, the system will be what you use to determine when to buy or when to sell and buying and selling at the right times will be paramount to your overall trading success. Although by saying that I risk the possibility of self-contradiction, it’s only when you fully understand the nature of trading that you can truly grasp this concept.

The fact is that whatever you use to determine your entry into the market will have little impact on the outcome of each individual trade. There is little or no point, therefore, in focusing solely on your trading method. To put it directly, you will never know who is participating in the market or why. When you consider this, it may help to explain those times when you have had an absolute text book set-up but the price has acted as if it wasn’t even there. This is even more frustrating when the last trade you took was a text book set-up, and it paid, just like it was ‘supposed’ to do.

If this happens several times (and it will, on every strategy), then the inclination is to dump the system as ‘ineffective’ and find a new one.

The reason that people are inclined to ditch the method and persist in the never-ending cycle (which we like to call the ‘Holy Grail Quest’) is because many assume that to be a good trader means that you have to somehow know which way the markets will go each session that you trade. By trading a system with this mindset, people place expectations on the outcome of each trade. The expectation is, of course, that the trade should win, when in reality, there is no way of possibly knowing what will happen next or where the price will go. You end up, therefore, with a random distribution of wins and losses which leads to disappointment, which subsequently perpetuates the cycle.
Chapter 2 How to Trade a Currency Fund

The topic of how markets move and how to develop the correct viewpoint on them is much more detailed than I have covered here and is definitely a subject best left for coaches like Mark Douglas. What I am trying to do is help you to understand that the system really isn’t the ‘be all and end all’, because it’s impossible to have one that never loses.

When it comes to the strategy that you are trading, the focus should merely be: Does this method result in a net gain or a net loss in my account after sustained trading? And how dramatic are the draw-downs during that trading period?

If the answer to the first question is “yes”, and the answer to the second question is “not very dramatic at all”, then you are onto a winner and on your way to trading professionally.

Assuming that you have taken all of that advice to heart, and that you are focused on merely finding a profitable strategy with no exaggerated expectation with regard to performance, then where do you go to find good potential trading strategies? When I was learning to trade, I tried almost every method and concept under the sun, but the one that caught my eye and really helped me become profitable was a concept called ‘Support and Resistance’.

If you have been trading for any length of time, then I expect you will have heard of this concept, but if you haven’t, it’s very simple to get your head around.

Start by looking on the price chart for an area where the price has already been repelled down. This area is now ‘resistance’, and vice-versa for ‘support’. If the price comes back to these same areas again, you can be ready and sell or buy in anticipation of the price being once again repelled. Of course, ‘Support and Resistance’ isn’t quite that simple, but again, the purpose of this book isn’t to give specific trade education.

There are many courses on the internet that provide a detailed education on the concept of trading with ‘Support and Resistance’; my own course being one of many. The fact is that no one course is better than another. It’s a fact that these concepts exist and all that varies is the approach that one takes when trading with them.

Typing a search for ‘Forex trading system’ into Google will bring up hundreds of potential trading methods that you can employ in your quest to become a professional trader.

The one thing I would say is that if you are learning from someone who has been there and done it, and has the verified track record of performance to prove it, the education is going to be that much more insightful (as opposed to some guy who studied some charts for a few years).

To get you started, here are a couple of really great web sites, which offer free content: Forex-strategies-revealed.com is a fantastic resource in that it literally contains every method or strategy you could possibly imagine. In addition to these sites there are many quality forums where traders happily post their methods for free. One of the biggest and one that I would highly recommend is ForexFactory.com

As you can see, finding a strategy is the easy part, but there is a step that most unsuccessful traders miss out on completely, which, ironically, is one of the keys to bringing psychology, risk management and your trading method together and helping you on your way to professional trading.

The step I am talking about is that of testing your method.

Testing your method brings about many huge benefits that will absolutely help you become a fund trader. How? Well, for a start it will give you a solid record of how your chosen system performs in real market
conditions. This is very important for two reasons. Firstly, you will know the exact point that your method is not performing as it should be so that you can tweak it to improve performance; and secondly, going forward, it will provide you with the most reliable indicator on which to base your expectations in terms of performance.

Knowing that you are in the middle of a draw-down or losing streak that has happened several times before is priceless, because, based on your record, you will also know that every time this kind of thing has happened your system has always righted itself and continued on in overall profit. This will help you to remain focused on the most important task at hand: taking the next trade. If you were without this data, the most likely scenario is that you would see the losing streak as another failed system and dump it in search of a ‘better’ one.

So again, find a course or coach that helps you carry out these steps. I don’t conduct personal coaching but my DVD course basically outlines everything that I did which worked (whilst leaving out all the things that didn’t). I also outline in much greater detail the testing process that almost every other ‘guru’ seems to miss out.

But again, no one course or coach or service is the ‘be all and end all’. The important thing is to find a strategy and test it to confirm that it works over a sustained period of trading. You can then use that history to give you the confidence to continue on trading it live. This can be done all on your own just by using the resources that we have looked at in this chapter.

Through the course of this book, I will reference various traders whom I have met and worked with during my time. Some of those encounters involve them losing a lot of money or quitting trading altogether, simply because they didn’t know or just didn’t follow the principles and guidelines that I will outline here. On the other hand, there have also been a few traders who have done the exact opposite by taking what they have learned and applying it in such a way as to become fully fledged professional fund traders.

So, once you have learned what to do in order to trade professionally, what comes next? Millions of pounds raked in by the day? Not quite yet.

The next step in your ladder of success is all about credibility and standing out from the competition.

Learning resources:

www.markdouglas.com - Mark Douglas is the foremost expert in the field of trading psychology. On his site you can gain access to his bestselling books and recorded workshops that will help you grasp all of the psychological issues that most traders suffer from.

www.learningmarkets.com – This is a free site designed to help you understand every possible aspect of trading and investing in financial markets. It’s a very good tool to help you understand fundamental aspects of trading, such as the COT report.

www.babypips.com – This is another wonderful free resource, aimed at teaching you every basic technical concept available. It won’t really help you become profitable on its own, but it will give you the knowledge base from which to develop strategies and trade plans - a must for new traders.

www.forex-strategies-revealed.com - This is an absolutely fantastic resource for finding Forex trading strategies, and best of all they are all free. Pick your favourite, prove it works, and then trade it!

www.forexfactory.com – Probably the largest of all the Forex sites out there, this site has a great forum where you can meet other traders who are passionate about learning. An all-round helpful website, you will find everything from a calendar for news events to trading strategies that members share for free.
In my various roles as a trader, expert and consultant, I get exposed to a wide array of different people within the industry. One of the most common questions that I’m asked is, ‘How do I trade for a fund?’

The people who ask me this question are usually well versed in trading education and have traded every concept imaginable. Many of them have even found a certain level of success in what they do to the point where their next goal is to trade for other people and leverage their ability to make money from the markets.

The reply I give to this question is always the same: trade for six to twelve months and create a consistent track record demonstrating low risk, small draw-downs and above average returns. Once they have this record, I always advise them to get their track record audited by an independent third party and then get back to me.

The reason for this answer is that anybody can produce amazing looking trading statements, freshly printed, and freshly photo-shopped (call me cynical). In fact, one of the major reasons I decided to take the act of trading seriously myself was because I considerably over-estimated the number of people who could actually trade consistently, and profitably. If ever there was a perfect niche where demand outstripped supply, it was in the world of currency fund trading.

When I first started trading, I became a member of several forums and chat rooms, and it was through one particular room that I met a trader who told me all about his success, and offered to help me get there too. Of course, I thought this was fantastic, especially when he gave me live presentations and showed me step by step how he traded and how to enter and exit the market. To this day, he is still one of the greatest technical traders I have ever seen.

He eventually suggested that we work together. He had credibility with me.
The structure of the partnership was simple; he would do the trading and I would go off with the trading statements that he provided and find him clients. We would then split the performance fee each month. This seemed like a very good deal, and my naïve, greedy younger self could see huge potential from this ‘business’. For a start, he was averaging 30% a month, which was just incredible. I did the maths and once I had $1 million under management, I would be making an incredibly sweet income for basically doing nothing. I had all my angles covered; we set it all up with the broker so that when they did the calculations at the end of each month they would automatically split it and send me my half and him his half. All the contracts were signed and sent back. All I had to do was go get him the clients.

At this point I was about to learn two very important lessons:

Lesson number one: Account statements are extremely easy to fabricate.

Lesson number two: A ‘trader’ can make a very good income from a client’s account even if they lose all their money.

The problem with my Grand Plan was that I was not aware of either of those two things. So, as you would expect, I carried on regardless. My first ports of call were my own friends and family, which were very easy sales, since I already had their trust. I collected my first £50,000 account and we began the process of opening it up and getting him trading.

As I imagined all the money I would soon be making for nothing, I tuned into the account viewing screen and proceeded to watch as his trading unfolded.

What I saw left me horrified! He was using huge leverage, and many times leaving positions open with no stop losses at all! This made massive dents in the account equity and after just a week’s trading the account was down a whopping 20%! When I approached him, he came up with the story of how the market had made dramatic moves, and that unexpected news had affected his position. Even though I was new and admittedly gullible, I understood that massive risk and no stops were not the hallmarks of a good trader. Therefore, I closed the account and had to explain the loss to my very annoyed friends and family (not to mention looking like a total fool in the process).

Needless to say, I ceased finding him clients.

The one thing that kept playing on my mind, though, was how this could happen when he had such a flawless track record. Furthermore, why would he trade in this reckless manner when we were making our money from performance fees? It just didn’t make any sense. I discovered the answer to this mystery several years later, when I was on the road to fund trading myself; commission splits.

A commission split is where you bring your client to the broker with the intention of trading for them, and as a reward the broker gives you a portion of the commissions traded on that account. These commissions are charged every time a trade is placed, regardless of whether it is a winner or a loser, and are based on the volume traded. The bigger the trade size, for example, the more commissions generated. What I realised is that the reason this trader took such huge risks and experienced such large draw-downs was because he really didn’t care what the outcome was; his only concern was that trades were placed. He was taking a cut of the commissions from the broker regardless of whether he made money or lost money. So in fact, it was in his interest to trade bigger, since the amount of commissions he generated was purely dependent on his volume traded.

But what about the account statements; how did he manage to demonstrate such lovely returns when his strategy was to destroy accounts? The answer to this came shortly afterwards.
One very important lesson that I have learned is that Forex trading, as an industry, tends to be a very small world. In other words, if you develop a bad reputation, it can be very difficult to hide. Conversely, if you build a good reputation, you can expect some fantastic coverage and opportunities from a whole army of people eager to benefit from your status.

Due to this fact, it wasn’t long before I encountered some people who had invested money with this ‘trader’, only in these cases, some much larger accounts than mine. Unsurprisingly, these came with absolutely horrific outcomes. One client, for example, lost 80% within two weeks, on a $100,000 account. Others lost everything.

The story was always the same; he would produce a great track record and then blow up the accounts. He would then fabricate a story as to why this had happened and he would even persuade some of them to re-invest to ‘make the money back’!

It soon became quite clear that this person was not a trader, but rather a scam artist, adept at falsifying his track record and suckering clients into his web. The misrepresentation of a track record, by the way, is about one of the easiest things a person with low integrity can do. All it takes is a genuine account statement (which anyone can get), and then a bit of simple editing on any popular ‘Photoshop’ software. It is then put into a PDF format and away you go - a perfect track record.

We calculated (based on the volumes he was trading and the accounts we knew about) that he must have made at least $100,000 from ruining people’s accounts and taking his commission splits. Looking back, it’s no wonder he didn’t mind giving me 50% of his performance fee each month as there was never going to be a performance fee to split!

The real irony was that his technical knowledge was flawless and his skills on the price charts were out of this world. He genuinely did have a great knowledge of how to trade the markets. Many of the skills I developed in trading ‘Support and Resistance’ were skills I learned from him and his ‘talent’ were the main reasons I trusted him and started working with him in the first place.

Unfortunately, he didn’t possess the psychological capabilities to trade consistently; nor did he have the risk management approach to protect the trading capital. In addition, he was essentially a criminal. Of course, this is an obvious conflict of interest and many brokers do not allow this kind of arrangement on principle. In fact, almost no retail broker will now allow that kind of arrangement.

Nonetheless, at the time, some large reputable brokers did and Dukascopy was one of them. One thing to bear in mind is that even when a broker did refuse to do this, there were still ways around it. A broker will offer commission splits with an IB who is not a trader, so in order to obtain the commissions, some traders simply partner up with IBs and share the profits. After all, half is better than nothing. An IB or ‘Introducing Broker’ is basically a middle man between funds and clients who is taking a cut of the fees for their troubles.

I must point out that at the time of writing this, things are getting much better, but at the beginning it really was like the Wild West.

In an ideal world, commission splits are actually a very nice way for a trader to make a consistent income. This is especially true in times of draw-down due to the fact that commissions are being charged regardless of whether the trader has a share or not. In other words, even if you don’t take a cut, your trading still has to make up for them each month. Additionally, if you are an honest and reputable trader, you can build a very nice structure whereby your trading income is supported by your share in the commissions. This makes the whole process much easier and a lot less stressful. There are some brokers who actually allow
this, and they simply place as many extra pips onto your client’s spread as you want. At the end of each month, you then get to keep them.

The particular route you choose to go down is, of course, entirely up to you. It is, however, very useful to know all of the options before you start working on your plan because all options have their pros and cons.

The main point of this chapter is that a track record is not enough, and the only way to make a track record as close to bullet-proof as possible is by getting it verified or audited.

These days, when assessing a trader’s record, I don’t even look at it if it’s not somehow verified. And when advising traders on their steps to professional fund management, an audit is always a vital ingredient. Almost every trader then replies with something like, “How do I get it audited?” or “What does that even mean?”

First things first; an audit is simply an external check carried out by a qualified but independent third party to confirm that the results you advertise to your clients are true and have actually happened. An ‘independent third party’ means someone who isn’t related to you either by blood or by business interests, and ‘qualified’ means that they are appropriately equipped to make the necessary checks and reporting. A qualified accountant (CPA), for example, may be in a position to offer you the service, providing that you can encourage your broker to assist them. Or sometimes the brokers themselves will be more than willing to carry out the reporting that you need to get your results verified.

The problem with audits is that there are many different types going into all sorts of different levels of detail so it can sometimes be confusing just finding an entity that will provide a credible audit.

When I started trading for the WealthbuilderFX Hedge Fund, one of my first memories was attending a meeting with one of our European IBs in London. It was a fascinating insight into the world of professional fund management, as he explained the process of attracting new money using old track records.

One of the subjects that I found particularly interesting was that of audited track records. For a long time I had wanted to get my small mini account history audited and verified, but couldn’t seem to get anyone to take me seriously (which I obviously found irritating).

First of all, there were fund specific companies that carried out these kinds of tasks; companies such as Price Water House Coopers, or JP Fund services. On top of this there were several types of audit, ranging from low detail all the way through to high detail, and there was also a difference in price. A quote for a low detail audit ran to about £10,000, and the high detail audits could be anything up to, and sometimes exceeding, £100,000.

The low detail audits were basically confirmation that you achieved the returns that you stated in your fund trading policy. A high detail audit, on the other hand, looked at how you achieved those returns:

Did the traders ever breach risk management policy?

Did the traders use the strategy that was outlined in the policy consistently?

Were there any deviations that a potential investor may be concerned about?

Suddenly, I understood why Price Water House Coopers were not even interested in giving me a quote for auditing my tiny £5000 account for the previous year. The other reason that it would have been pointless was because potential investors at an institutional level plant money in relation to the size of
the account that you audited in the first place. So my grand ideas of walking into an office and showing my 80% annual return on a £5000 account, and walking out with £100,000 investment were total pipe dreams. In reality, the best I could expect was something more like another £5000 on top, and almost all professional investors, particularly fund managers, will not invest in anything less than £100,000 chunks, and usually much more.

As I sat in the meeting absorbing all of this information, I realised that way back when I was trying to get the audit off the ground, I was looking in the wrong places for the wrong things. Instead of getting a large company to complete the audit, I became aware that the best thing to do is build up a relationship with your broker. This has several benefits:

The broker is fully aware of your performance, because after all, you have been trading under their noses for the past few months.

Additionally, when a private client decides to try and invest into Forex, but doesn’t have the ability to trade it themselves, or the financial clout to invest in a large Hedge Fund, they turn to the next best source of traders - the broker.

With the broker being in a position of knowing you and being able to verify your track record, you will have a certain level of credibility to a specific group of investors.

Sometimes brokers will not be prepared to do this for you. In Switzerland, for example, some brokers consider it a breach of privacy to open up your accounts to anyone other than you, even with your express permission.

From my experience, Dukascopy is one such broker that will not carry out any kind of verification. On the other hand, ACM are a little bit more flexible and providing you have a decent record, will offer to help you out. If you’re not keen on Switzerland then the best retail broker that I ever traded with was Alpari UK. They were also the most flexible in terms of building relationships and accommodating my needs.

The best tactic is to approach several brokers, tell them your plan and ask if they will be prepared to verify your account at a later date, and just go with the ones that agree.

The general principle when dealing with a broker in any capacity is to be aware that they firmly adhere to the adage ‘you scratch my back and I’ll scratch yours’. In other words, before asking for the help of a broker, you need to demonstrate that you are useful to them first. The best way to show this is by trading a live account with them, if possible, introducing friends or colleagues to trade with them too. Once you can prove your worth, a broker will tend to bend over backwards to accommodate your needs. This is something important to bear in mind if you are planning your fund trading career from scratch. If they believe that you will be bringing in many clients and funds, they will pretty much do anything they can to help you.

If you are struggling to get someone to actually verify your trading accounts in the early stages, there are also several other ways that you can gain a credible verification of your account. Sites such as Myfxbook.com and currensee.com offer to link your account to their systems, so that the whole world can look at your performance without actually having access to your account. This is a step in between you simply producing an account and getting your account audited.

This may be a valuable tool for small accounts or if you don’t have a few thousand lying around for a half decent audit. These sites are legitimate (at the time of writing) and offer at least some comfort for your potential clients. I love these sites and although they were not around when I was building up my record,
I have several students who have used them to great effect.

Aside from outside verification, there are several other things that you can do to gain credibility. One such thing is offering your knowledge and experience to those traders who are struggling or less experienced. This places you as an expert in your field; leading a tribe of people to where they want to be is very good for credibility.

You may find that educating people comes with negative connotations. The saying, ‘those who can’t, teach’ may bounce around the industry and while this may be true for some trading educators, there are many other groups who see a reputation as a trading guru as something that will add to their credibility and help push them that little bit further to their end goal of becoming a professional fund trader.

At around the time I started trading successfully, I decided that helping others was a good thing to do. I genuinely liked helping others and I could also see how beneficial it could be in the future.

With this in mind, I set up my first trading website, invest-fx.com. I initiated a free Skype trading chat room and on the website I wrote out a couple of short training courses. The Skype chat room was also a freely open environment that anyone could join if they so wished. I would go in there each day and help other traders with their issues, and maybe point out the trades that I was taking and why. The chat room was an instant success and word spread remarkably fast. Soon, I had over sixty people in the room all interacting with me and helping each other to the common goal. Word of mouth spread via trading forums. It was great! Traders were certainly looking for an expert to help them and for those sixty people, that expert was me!

Obviously, when you consider the thousands of traders all over the internet, sixty people doesn’t sound like a lot. Nevertheless, my two biggest opportunities in trading came as a direct result of that Skype trading room and my invest-FX website.

First of all, I met someone who was interested in my trading, so we spent quite some time going over my technique and using the concepts that had helped me up to that point. What I didn’t realise at the time was that the person just so happened to be a Hedge Fund manager. After a few months, he invited me to join the fund and start trading for him - not bad for a free Skype chat room! Shortly after this, a large Forex training company, ForexMentor.com, discovered my room and asked if I would be prepared to offer something similar for their clients. When I did the maths on the potential revenues, it was a no-brainer. When we actually launched, the figures were even better than I imagined. In the first two months, my new ‘Live Trading Room’ generated almost £100,000 in revenue.

Sadly, the time and effort that I was putting into my trading, and then my new Premium trading room, meant that my Skype room got neglected and slowly died off. However I’ll never forget what a huge stepping stone it proved to be. When I look back, I often wonder what I would be doing if I hadn’t made that breakthrough. One thing’s for sure, the cocktail in my hand wouldn’t taste as sweet! It just goes to show that you shouldn’t rule out doing similar projects in order to gain credibility as a professional trader.

Once I was trading for the fund, we were monitored by Barclays, which is probably the largest company that tracks the performance of Hedge Funds and Currency Funds. This also adds credibility because if your fund is being tracked, then clients can trust that your trading performance is genuine (rather than using a bunch of trading statements that could easily be ‘photo-shopped’).

I also used Barclays to track my own managed account performance and was ranked as the 2nd best performing trader on the planet between 2008 – 2012, which, when combined with a third party audit which I also had conducted, further added to my credibility.
One final thing to consider is that of regulation (specifically by some kind of governmental authority). In the UK, for example, it would be the FSA and in the US it could be the NFA; most countries will have their independent governing bodies.

For the most traditional paths to regulation, the process is long, tedious and expensive (not to mention the fact that Spot Forex trading is a really grey area when it comes to these bodies). Quite often, they struggle to even tell you whether regulation is even necessary because (particularly in the UK) Spot trading clients’ money via Power of Attorney is not regarded as a necessarily regulated activity. For the most part, the main concern of these bodies is to stop blatant scams involving ‘traders’ stealing investors’ money, which is impossible when trading Spot Forex via POA.

The reason it’s impossible is because when you trade a client’s account you have no access to their money for any other reason than to trade it. The client retains full control over the funds, allowing them to closely monitor your performance and decide for themselves when to withdraw funds or limit their exposure to your trades, etc. If you stick to your risk management policies, therefore, it’s incredibly difficult to sustain the kinds of losses that would cause any kind of legal action against you, and any losses you do sustain will be from trading pure and simple. Additionally, if there is any doubt then it is very easy for your account records and broker to verify this.

On the other hand, when dealing with private clients (individual investors below £250k) one can never be too careful (to the point that if I were to offer a piece of advice regarding such clients, it would be to avoid them altogether).

On the subject of gaining regulation, there is a small trick that you can potentially use to get regulated quickly and almost hassle-free (and more importantly, expense-free), and for this we once again turn to our old friend, Mr Broker.

If you form a partnership with a company that is regulated, it may be possible for you to fall under their umbrella of regulation. Your relationship with your broker obviously plays a part in this, but if you have built a solid relationship, they will have many contacts that can potentially work with you to become regulated or at least trade in a regulated environment.

The way this works is fairly simple: the regulated company (RC) will take on all of your clients in their name so that they become ultimately liable for your trading performance. They then either take a fee for this or agree to split all profits that your trading generates on those client accounts.

This allows you to continue trading and finding clients as you have done, but with the very important element of regulation, which, by the way, almost all independent FX traders lack. As long as you are sticking to the agreement and not taking silly risks, the RC is basically dormant. Furthermore, if you have a really good one, they may even start finding you clients themselves.

This type of relationship allows you to grow your business until such a time that you can afford to create your very own regulated entity. These types of companies do not go around advertising this feature, simply because demand for this is fairly limited and probably not worth the expense of doing so.

Many of these RCs are actually trading funds themselves, because after all, they are regulated to trade client accounts. The best place to find them is via your broker, which is another reason to build a good relationship with one in the beginning. If you simply talk to the broker about your plans and make it clear that you aim to make them a lot of money in the process, then you may find them more than accommodating.
Of course, not all brokers will offer this, but when you’re selecting your broker initially, make this one of your questions.

Once you have a credible track record of trading history (including at least some kind of verification, regulation and if possible an audience of followers), the next step is using it to attract trading capital.

Resources for producing a credible track record:

www.lacrosseglobal.com – A professional fund administration service that can help you get your accounts audited, but be prepared for the high cost.

www.acsbco.com – Another company that specialises in auditing and administration for Hedge Funds. Beware; this comes with another hefty price tag.

www.jpfs.com – Based in Europe, JPFS can not only help you with your auditing, but also with getting set up as a fund.

www.myfxbook.com – This is a fantastic resource if you don’t have thousands of dollars to get your initial accounts verified. You can simply connect a ‘read only’ version of your trading account to this website and they will automatically keep track of your results and verify your performance. Best of all, it’s free.

www.currensee.com – Similar to myfxbook, but it’s more social based, and they have a community of traders that you can work with and compete with. Once again, it’s free and gives a great third party verification of your performance.
Because I was extremely fortunate to navigate my way into the path of a Hedge Fund manager, it may seem that my luck made my journey easy and that most people (probably including yourself) won’t have such good fortune.

This is almost certainly the case; however, being in the Hedge Fund environment and meeting all the different types of people within the industry that I have, I am in a unique position to know about the various routes to funding (despite the fact that I didn’t actually take them).

Let’s return to the broker who you are trading with. Previously, we discussed how they may be prepared to verify your record, and that they also have access to many clients who are looking for someone to manage or trade their account. If planned properly, this can be an excellent way to start your fund trading career. If your broker knows your plan ahead of time, then they will have you in mind when clients enquire about any professional traders that they know of.

Getting your broker to feed you clients is about as simple as it gets, but it’s often a route that goes completely unnoticed and unused by budding professional traders. This isn’t the end of the opportunities. In addition to having clients who are in contact with them, they are also privy to IBs.

Remember, an IB is simply someone who introduces capital to traders, so once you have a good relationship with your broker you can start to ask about any IBs that they may be dealing with at the time. You can also explore the possibility of being introduced to them.

This is basically like having your own team of salesmen tracking down and sourcing streams of capital for you to trade. Of course, this all depends on your trading performance, but if you have followed the steps of getting a solid education in how to trade professionally, your results should continue in the same manner as when you first built up your track record.
Before we go into other avenues of attaining client’s funds, it’s important to discuss the type of client that you need to be aiming for. In the beginning it can seem like any money is good money, but in my experience this is not the case. As with most other forms of business, generally the clients with the lowest amount of capital invested will complain the most and be the biggest drain on your time and resources.

This is due to several factors. First of all, the money they have invested is usually most of their entire portfolio, despite what they may claim. For this reason, they will be horrified by any draw-downs that you experience and will want to know why it happened and when you will make it back. Remember, they have you trading their money because they can’t do it themselves, which means they have an active interest in the markets and trading in general (not enough to actually trade but enough to make your life a living hell with questions and ‘suggestions’).

Before I started trading at WealthbuilderFX, I had several clients like this and I soon concluded that anyone investing anything below £250,000 was a waste of time and not worth dealing with.

One of my biggest lessons in this area came from the guy we looked at in Chapter One; the guy who was obsessed with finding the ‘Holy Grail’ of trading and never taking a loss. Looking back, he operated the way he did quite simply because he couldn’t trade himself. It’s a common story that these people have great technical knowledge but they can’t actually execute a trading plan consistently on real live accounts. Also, as we looked at earlier, the main cause is poor trading psychology.

His plan was for me to trade his ‘amazing system’ on his money and give me a cut, which, again to my naive young self at the time, seemed a wonderful situation to become involved with.

I absorbed his strategy and began trading it, which (yes, you’ve guessed it) ended in loss after loss. At the end of each losing day he would always have some reason why the trades had lost and commend me on following the system, but give me advice on a few things I should do differently next time. Every day he would give me new instructions, which, looking back, was him just curve fitting the results to make every loser into a winner, which, sadly, only ever works in hindsight.

Eventually, after almost twelve months of ‘working’ with him, I decided that I was effectively wasting my time and that his methods were never going to work because he simply changed them every time there was a loss. Subsequently, it was this switching and inconsistency in the method that ultimately caused the accounts to perish. Of course, he didn’t like hearing this kind of negative comment and proceeded to attempt to sue me for theft of his money!

No, you haven’t read that sentence incorrectly; he actually accused me of being a criminal! He funded an account, gave me the log in details and talked me through his strategy step by step until all the money was gone. Then he accused me of stealing from him.

Obviously, it was ridiculous; I had all of the emails, the trading account was in his name, and no money ever exchanged hands, so the chances of me ever getting charged with criminal activity were zero, but that doesn’t stop that kind of event having an impact.

In the end, he didn’t go ahead with it and we simply went our separate ways, but if he had then even being involved with something like that would have shaken me to the core. I am not a criminal and believe firmly that it is better to be honest above everything. Ultimately, my reputation could have been completely ruined, for nothing.

Shortly after that episode, I decided that I would no longer trade for small investors and would instead focus on trading for a large fund or institutional investors. I concluded that the potential hassle was
certainly not worth the rewards that came from trading a £10,000 micro account and splitting the profits.

A true investor will have vast reserves of risk capital to the point where anything they have with you is not worth worrying about. You won’t hear a peep from them unless something really bad happens, like extreme draw down, but again, this is highly unlikely if you stick to sound risk management principles as set out in your policy. Normal draw down, as experienced during the time you were creating your track record, will go almost unnoticed by a true investor, which allows you to get on with the task in hand - taking the next trade.

If you do decide to trade for private clients (and by private I mean below a £250k investment) then I would urge you to use extreme caution. Not only will they be taxing on your time and resources with their constant questions and analysis of your trades, but they will also start to affect your trading psychology, causing self-doubt and even fear of losing. This can be terminal for a professional trader and anything that could even remotely cause it should be eliminated. So, keep a close eye on your clients and how they are interacting with you. If it starts to get too much, cut them loose; you’ll be far better off in the long run.

One thing I employed was a strict non-contact agreement.

The agreement would state that unless certain issues arose, i.e. a larger than expected draw-down was experienced on the account, then they were forbidden to contact me at any time, especially with anything trading related. If they did wish to discuss something useful, such as adding funds to their account, then they should deal directly with the broker or an assistant that I had in place. All of these agreements were signed before trading began and if breached to the point of irritation, they were cut loose.

It may sound harsh or even bad business, but remember, I had a client threaten to take legal action against me for theft of his money, despite the fact that I was trading via POA and accessing his money was basically impossible.

The point is, private clients are usually failed traders themselves, and as such, have unrealistic expectations as to how a professional trader should perform. This in turn means that they carry this unrealistic viewpoint over into other areas, such as seeing genuine trading losses as theft. If you take one piece of advice from this chapter then make sure it is to avoid small individual investors and always use a middle man if possible; this is one of the benefits of an IB. There are, however, plenty of negatives aspects to IBs also...

When raising money, an IB can be extremely efficient. After all, it’s what they do; they are linked in to all kinds of networks and capital flows. The problem comes when you begin to negotiate their fees. For the most part, all IBs that I have ever dealt with have been on a performance fee cut only, which means that they get a cut of the performance fee you take from any profits that you make for your clients.

This can be on a monthly basis for the life of the account, which after a while can really become quite irritating, as the IB has done a one-off deal, and now sits back while the money rolls in each month. In the meantime, you are the one actually trading the money and going through all the struggles that traders typically face.

Other IBs are more reasonable and will expect either a one-off fee based on a small percentage of the account (taken directly from the client’s funds), or will simply take a one-off fee (usually paid by the client, but sometimes by the trader).

Obviously, our personal preference as traders is the percentage of the account taken at the start.
Therefore, when negotiating with IBs, don’t blurt out anything about monthly percentage cuts of performance fees until they bring it up, and when they do, act horrified, as if that is unacceptable and the end of negotiations.

Of course, if the IB is a good one who can bring constant streams of capital then it may be a noose worth having.

But that will have to be a decision you make based on all the factors. One trick I used was to offer them a % of the account at the start, and then based on how much capital they raised, move up to a monthly % performance fee cut. This offers the IB incentives to work harder and will subsequently result in you trading larger sums faster.

Remember, the better and longer your track record, and the more credibility you have associated with it, the harder the bargain you can drive. Good traders are almost impossible to find, especially if we use the following definition of good trading:

‘Low risk trading with small draw-downs and above average returns’

Some clients may be mesmerised by the guy that made 30% last month, but trust me, they are in for a painful shock sooner or later as they will either end up broke or knocking on your door to repair the damage. IBs and brokers know this so if you really want to become a top trader to promote in their eyes, have that definition as your mantra.

When you possess such a record, don’t be afraid to wield it, and use it to demand better deals from your IBs and your broker.

The other avenue that you can explore in terms of raising capital is that of other trading funds already in existence. Again, your broker will have plenty of contacts in this department which you may be able to tap into, but remember at first you will be viewed as competition, so don’t expect a warm welcome and an abundance of helpful advice. If you can use your record to show them that you are a talented trader, however, and that you are keen on using that talent to trade their funds, then you could be in with a shout.

There are two basic approaches you can take to existing funds. Firstly, you can approach them with the possibility of becoming a trader for them. Secondly, you can propose that they diversify some of their portfolio to you.

If you’re contacting them through a broker then the chances are that they will be in a currency trading fund already and won’t be keen on diversifying with you, mainly because you’re doing the exact same thing as them.

The best approach for this is as a potential trader for the fund, as with all likelihood, they will already be set up, and won’t need you. If, on the other hand, your record is better than theirs, you may get something from them.

If your record is indeed better than theirs, why would you want to trade for them, rather than attracting your own money?

The main reason is that they are already established and can probably set you up with £1 million to trade quite easily, which is going to be a task for you to achieve based on the fact that most investors look to
invest what the trader has already been trading based on the track record. Therefore, unless you have been building your record on a £1million account, your initial investments are going to be significantly lower. Even if they don’t have any positions at that time, it’s good to be on their radar, and the more funds you approach the better your chances of finding one open to you.

The other approach involves moving away from your broker and onto third party fund rating companies. Barclays, for example, is a company that tracks hundreds of different funds of all sizes and shapes, and then passes this information on to investors. So, if you want access to hundreds of Hedge Funds, this is a great place to start. It’s a premium service, but the contacts you could generate here are potentially worth infinitely more than any subscription charge you will pay.

This kind of place will have a wider ranging array of funds, many of which will be looking for places to diversify into, and you could be just what they are looking for. Bear in mind, however, that these kinds of funds don’t invest anything less than £100,000 chunks (often a lot more) so you may have to get your timing right before approaching them.

Remember, the closer you get to trading larger funds, the better quality your client. Nonetheless, it could take time to reach this stage and you need to be prepared to build up your trade size slowly. On the other hand, people are generally greedy, so if they see your performance and like it, you could end up with a lot of money in a very short space of time. Because of my own experience and reputation in the industry, one of my roles is consulting to start-up funds on how to successfully build up a team of traders that would be stable and produce consistent returns each year. My unique position as trader, expert and consultant has privileged me to almost every angle in the trading world, and I have a pretty good idea of what makes a good trader and how to go about building a team from the ground up.

Personally, I have no problem recommending people that have no experience trading large volume as long as they demonstrate that they can stick to their pre-defined strategy and replicate their track record results on a small account. We then incrementally increase the amount they trade until they are up to full size.

The point of this is that if you can find smaller start-up funds, these have all the resources required to attain funding, whilst being flexible enough to give you a shot. These opportunities are rare but it’s good to know they exist.

**Resources for locating investment:**

**www.cfhmarkets.com** - CFH markets are London based brokers who deal only with institutional investors. This means that they have access to hundreds of clients, IBs and small trading funds that could potentially take you on. These guys are great if you are looking for helpful brokers with good contacts.

**www.dukascopy.com** – Dukascopy are a Swiss broker with a retail background, which may be helpful if you are currently only trading a small account. They also have access to IBs and clients that you could tap into when the time is right. They are much more helpful than many brokers when it comes to helping you get off the ground with finding clients.

**www.Linkedin.com** – This is a very useful place to find IBs and fund managers. I have had a lot of opportunities presented to me through this portal.

**www.Barclayhedge.com** – Again, we looked at these earlier, but they can be very useful for locating funds which you can network with and contact.
Once you have found your path into fund trading, there is a whole host of other lessons to be learned.

One of the first (and most important) questions you may be asking yourself is; how much money do traders make?

The answer to this is truly dependent on the type of fund or organisation that you work for. A behemoth corporation such as Goldman Sachs, for example, may offer their traders a basic salary plus bonuses (based on how they perform). At the other end of the scale, a new trader who has recently ventured out on their own, and has accepted the first batch of client accounts to trade, will most likely be on a performance fee only scale. In other words and to put it bluntly; if they don’t perform, they don’t eat.

There are also medium areas. Earlier we looked at the possibility of being on a commission split with your broker, which would at least provide a steady stream of something to complement your trading. Other operations, such as small funds, run the method of charging an annual fee plus a performance fee. This has the same effect of stabilising the income so that the cash flow is at least calmer than the brutal performance fee only model that I spent most of my early days on.

If you are singularly focused on trading then there are several options when looking for different streams of income, and I wouldn’t rule any of them out. Just because certain models can be abused by dishonest individuals, it doesn’t mean that they should be avoided by those of us who don’t intend to fleece our clients.

Outside of trading, we have already looked at the benefits and possibilities of becoming a recognised expert in your field because, let’s face it, if you have made it this far, you are much better off than most people attempting the same thing. If you have already grafted hard enough to travel this distance, you will almost certainly have something valuable to offer in terms of expertise or information.
When people consider the fact that I train others to trade, one of the most common ‘snipes’ I receive is; “If you’re so good at trading, then why are you bothering to teach others? Why not just go and get rich trading?”

The answer is short, simple and to the point; because I make a lot of money from it.

When I reach a point in my life when I can happily turn my nose up at the £10,000 - £30,000 per month that my training generates, I will. Until then, I will take it.

I have a colleague who also runs a fund, but does training courses and seminars as well. He has built himself a solid reputation in the industry, but he is by no means selling out stadiums. The fact is you don’t need a vast army of followers and millions of people buying your expertise. He runs seminars several times a year, and charges $1500 per head, for a one or two day event. At that price, he usually gets around thirty people in attendance. At first glance, you may think that this is hardly worth bothering with, but when you calculate the amount of money this is worth, can you really say that $45,000 for a weekend is a bad turnover? Trading aside, you only need to do two or three of these a year for a solid income. Obviously, this is a good way to take the pressure off, and at the same time it isn’t so time consuming as to distract you from the ultimate goal of trading people’s money. It’s definitely worth considering, as although a few small seminars a year certainly won’t make you rich, trading hundreds of millions of dollars will.

So, always remember to keep the priority on trading, but if you can offer something from an educational point of view (that doesn’t take up all your time), then go for it!

There are literally hundreds of other avenues (aside from trading) where you can explore the concept of earning a residual income whilst continuing to build a track record. The fact is that to be trading the kind of volumes you need in order to buy a Ferraris every month, you are going to need a sustained, verified record on large accounts. This is very time consuming; you can’t just build up a steady record overnight, and getting audits conducted can be extremely expensive, especially if your broker offers no assistance in this.

To demonstrate exactly what I am talking about, let’s look at some calculations.

**Trading account value: £1 million**

**Average performance each month: 2% - this is a very good return, and achievable inside our mantra of good trading.**

**Monthly profit = £20,000**

**Traders performance fee 30% = £6,000**

This is certainly not a bad monthly income, but it’s important to bear in mind that the next month you may enter draw-down, and take home nothing. Subsequently, the following month you may have to recover your previous high before making any more money. Suddenly, you realise you have gone three months with only £6000 earnings; not quite so amazing.

Almost anyone in their right mind would see an extra £10k a month from other streams of income as something to capitalise on. This extra income steadies the ship during these kinds of draw-down periods. Remember, the extra income can be anything that provides it (and doesn’t get in the way of your trading), from a regular job or commission splits, all the way through to conducting seminars a few times a year.

As we have already pointed out, however, it won’t make you rich. If you want to be cruising around in
one of your many Ferraris, then you need to keep trading. Let’s look at these calculations again, but this time, let’s consider your profits a few years down the line when you have a larger track record on serious money:

**Trading account value: £20 million**

**Average performance per month 2%** - again this would be a very attractive return and is probably a little on the high side, but only your track record will tell you that for sure.

**Monthly profit = $400,000**

**Traders performance fee = $120,000 per month**

Suddenly, we are in the realms of Ferraris every month, and nice holidays to Monaco. And the jump from $1 to $20 million isn’t that spectacular. It could easily be achieved within 5 years if your record was consistent and low risk.

Now all of a sudden, how does an extra $10k a month sound? Not quite as attractive but you may keep it up at a push, if you actually enjoyed the other projects that you were working on.

The point is that being a million dollar trader isn’t as glamorous as it sounds, and the notion of traders having other income streams isn’t such a stupid one, once you understand how the whole thing works.

When it comes to charging, the industry standard is a 30% performance fee. Obviously, if you’re trading for a fund, this will be lower, so expect between 15% and 20% in these circumstances. As a trader, you should not be doing any back office work, such as reporting to your clients. If you’re working on your own, make sure the broker carries out these tasks on a monthly basis or that you have an assistant to do it. Alternatively, if you are working with a fund, they should have all of these features in place. Always remember that your primary goal is to trade.

The other thing to bear in mind is that it’s almost always best to trade for clients on a ‘Power of Attorney’ basis (POA), rather than actually taking possession of their money. In fact, doing the latter puts you in the realms of illegal activity if you are not properly regulated (which is not somewhere you want to be if some hothead gets mad and decides to sue you!).

There does come a point though, when your investors will demand that you have a fund structure in place so that they can place funds with you. This is the time when you need to look at setting up something a bit more substantial than a simple POA based trading system with a broker.

The reason is that this is simply how larger Hedge Funds operate. They don’t have the systems to set up to track small trading accounts everywhere, so it’s just easier to place large sums in one lump with another fund. To attract these kinds of investments you will obviously need your audited record on large account sizes. You may also need to set up a separate fund to operate out of and this can be time consuming and costly, so get a professional to help you. JP Fund services are a company that I am familiar with and they specialise in this area. If the cost is prohibitive, you’re not ready to make that leap anyway, so just keep doing what you’re doing.

At this stage, you will start to meet lots of people, some of whom will be professional traders. When I was at this stage of my career, one of the main things that stood out was how few of the ‘professionals’ were actually any good. Most of them suffered the exact same issues that I did when I was sitting in front of my £200 micro account and most of them demonstrated this with their results.
One example of this was when our broker launched a promotional event to try and locate the best fund or trader and reward them with a Home Page promotion on their website. We held initial meetings with the broker about our participation in the contest, and I was told that out of the thirty or so ‘professional’ traders and funds, only about four were worth bothering with. To cut a long story short, the rest were in horrendous draw-down.

To say I was shocked is an understatement! Almost 90% of the so called ‘professionals’ were not even breaking even, and what was even worse was the fact that they seemingly had no idea what to do about it! Shortly after this unbelievable revelation, I was contacted by another broker who I had dealt with in the past. The conversation that followed was barely believable, but so fascinating that I have included it in here anyway.

The person on the other end of the line had a client, and the client had a trader that was managing his account. Unfortunately, he had got himself into several hedges because he hadn’t wanted to take the loss. So, rather than close the trades out he let them run, but placed a counter trade in the opposite direction with the intention of closing both out at a later date. The account was down around 60%.

Furthermore, the price had settled right in the middle of the two orders, meaning that it was just languishing in this terrible draw-down. The client had requested another trader to come in and assist; basically unwinding the position whilst making a series of smaller trades to put it back into profit. I was speechless; they were asking as if you could just stroll into the market and make profit happen on command!

This is a classic example of a private client having warped expectations of what a professional trader is capable of. It’s also a timeless illustration of a so-called professional trader approaching the market like an idiot. Needless to say, I told him I wasn’t prepared to get involved and that was the last I heard of him.

The point of this is to assure you that you should never be self-doubting about the fact that you are just starting out, or that you didn’t come from a banking background. The fact is, when trading spot currencies in a speculative fashion, we all have the same chances of making or losing our money.

Apart from the fact that almost all of my preconceptions regarding fund trading and professional traders as a whole were completely wrong, there were other things that I discovered.

One of these things was finding out that there was a difference between retail trading environments and institutional level trading environments. This meant that while trading on a retail platform (which is what almost all retail brokers found on Google were back then) the prices I was looking at were not actually properly linked in to the Foreign Exchange market. Instead they were only based on the actual market. The reason for this was that they could operate using fixed spreads, which in turn, meant they could offer ‘no commissions’ within their sales pitches.

The real live market depends on ever changing prices, provided by banks, which meant that as the various bids and offers came in, the difference between the two (commonly known as the spread) would be constantly changing within a certain range (a EUR/USD, for example, tended to stay within the range of 0.5 – 2 pip spreads).

Consequently, if the broker set the spread it quoted at a constant 2 pips, then most of the time I was
paying slightly too much per trade and the broker could pocket the difference.

Doing this meant that the broker could avoid charging direct commissions on a per trade basis, thus giving the illusion of ‘commission-free trading’. This, of course, had obvious benefits from a marketing point of view, and depending on the spreads that they decided to set, meant a larger profit margin from the actual trading.

In order to do this, however, they had to isolate the clients’ price feed from the real price feed. Otherwise it would be impossible to display fixed spreads. This did, of course, expose the brokers to mild amounts of risk. If, for example, the real spreads were much larger than the fixed amount they had set (at news times, for instance) then the broker had to come up with the difference, which could be quite expensive at volatile times.

Another facet of this model was that because the environment was only based on the live price feeds, most trades placed by clients were automatically accepted and filled. This again exposed the broker to the risk of filling my order but then not being able to pass it onto the real market. Whilst this model gave the impression of the broker being able to manipulate prices and hunt clients’ stop losses, in reality this almost certainly never happened. First of all, it’s in the broker’s best interest to keep you trading for longer because that way, they get all that extra spread each time you place a trade. Furthermore, it would be far too much effort (for a few dollars) to monitor every stop loss placement of every single individual account.

So how did I know all this for certain?

Quite simply, I found out when I started trading at an institutional level and no longer encountered this manufactured trading environment. As I was entering trades and taking wins and losses, I started to realise that things were suddenly operating in a different way from what I was previously used to.

My fills on each trade, for example, were much more complicated (and frustrating), because now, every time I entered a trade, I could only get filled if there was a market participant (bank) on the other side prepared to buy into my sells. They also had to be prepared to sell into my buys at the exact same price as me, at the exact same time. Bearing in mind that the FX market is a $4 trillion a day market, this doesn’t sound too difficult and at small volumes it isn’t (which is why the retail brokers can afford to offer you fixed spreads and guaranteed fills on your mini lot trades).

Once I was trading over 100 standard lots ($10 million each way), however, the fills got harder, and I started to get slippage, to the point where there were at least one or two pips slippage on entry and exits that were expected.

When reading this, bear in mind that no bank would fill a single trade over $1million, so the trade gets split between several banks and they all offer you slightly different fill prices. This made a massive difference to my trading, because it resulted in not only a higher cost of each trade (I needed to make four pips extra per trade to maintain the same performance) but it also meant my take profit orders were not getting filled where I had set them to, or the price running slightly past my initial stop loss levels; making my losses larger and my gains smaller in comparison.

On top of this, the brokers also charge commissions on each trade placed, because at that level, they are not as easily placed to show you an inflated spread. So, I just got what the live feed was giving me at the time.

On top of the slippage, I was experiencing each of my trades additionally having to cover the broker’s
costs. At the time, I was trading a very successful scalping strategy in which I was risking ten pips to make ten pips on break outs of ‘Support and Resistance’ levels. This was highly compromised under these new conditions. However, because I wasn’t getting a 1:1 risk reward, I was getting a negative one instead. If that wasn’t enough, because my stop losses were so small, I had to use large amounts of leverage to achieve decent returns, which again made my trades more expensive. Over time, my account would have bled to a slow and painful death, and when I realised this, I knew that scalping was not the way to trade at this level; there were just too many bites being taken out of my trades on a consistent basis.

These conditions meant that I needed to trade a strategy that required far less activity, had much larger stop losses and traded without leverage.

I’ll be honest; this was a realisation I could have done with having before I’d started trading for a fund. Fortunately, through my helping and coaching of others, I had developed several trading methods that I was able to fall back on. I could see that such a scalping strategy just wouldn’t be sustainable in such a trading environment, and I stopped using it before it got me into any major trouble. Other traders who I had come into contact with were not quite so far sighted, and I personally witnessed the demise of one particular trader first hand. This trader went from New York shopping trips and Monaco holiday homes to being absolutely broke in less than six months. Why? Purely because of the huge losses he incurred from scalping with too much leverage.

The main lesson from all this is that retail and institutional trading are very different and what worked on your standard account may not work on a large scale. So, if your goal is to eventually trade massive volumes, it may be worth taking these things into consideration now, and learning from the lessons that my former colleagues and I learned from the hard way.

Another option to consider is that of an ECN broker, as opposed to a dealing desk (fake environment) or a straight-up institutional broker.

The difference between an ECN and a normal institutional broker is that an ECN makes everyone a liquidity provider, even you. If you place a buy order, for example, the ECN may use that order to counter a sell order placed by another trader. This is in stark contrast to a traditional institutional broker (such as banks), that have fixed liquidity providers. With that model, you are relying on those few providers filling your orders when you place them, and many times, with large trades they simply won’t and you will experience greater slippage.

An ECN, on the other hand, is much more flexible about using available liquidity, and therefore your trades should get filled more easily and with less slippage.

During my time as a professional trader, I have traded on all three levels and I have to say that ECN offers the best type of service, particularly in terms of execution and fills. But if you trade for a fund you won’t really get a choice where you trade; that decision will be made ahead of time, over your head. You will simply have to learn the trading platform being used and get on with it.

In the end, I decided that trading for a fund wasn’t really for me, despite the fact that it was my dream for years and everything I had been through had been to that end. The reasons for feeling like this were two-fold.

First of all, the commissions were far too low to get rich particularly fast. With the structure of the fund, you have too many people taking a cut of the pie. Out of the monthly profit generated, for example, you have to pay the IB, the broker, the fund itself and finally, the trader. All this considered, I was receiving 15% of traded profits per month.
So, let’s do the maths once more:

**Account balance: £1,000,000**

**Monthly return: 2%**

**Trader cut 15% = £3000**

So, for slaving away and suffering all the stresses that come with the territory it was quite likely that I could have ended up making just £3000 per month for trading a £1 million account! Even when I multiplied the balance by ten, I would be pulling in £30k per month but I would be generating over £200k! It just didn’t seem right to me, and it certainly was not what I had expected.

While £30,000 a month is a lot of money, it was never going to propel me towards being super-rich! Plus, I knew I could make that kind of money from educating people, and I thought that shouldn’t have been the case. In addition the fact that my other trading buddies were trading their own private funds, with their own high net worth investors and charging a 50% performance, made me really consider what I was doing.

After much deliberation, I decided that the best course of action was to continue trading private clients, with a minimum account size of £250k but only if they were not ex-traders themselves, and only if they signed the non-contact agreements.

If trading professionally for clients is your dream, as it was mine, then I still recommend that you look at all these avenues, because out of all this I have built up my contacts and my reputation. Plus, the experience of working with other professionals in the industry is second to none and will give you far more of a stepping stone than this book. All I am trying to do is tell you how it is, or at least how it was for me, so that you can prepare accordingly, as you see fit.

Being prepared for all of these pitfalls ahead of time is gold, but being prepared for the mental challenges is something that is even more important, as we will see in the next chapter...

---

**Resources for next level market access:**

**www.Dukascopy.com** – These brokers give very good liquidity access to the markets and real time spreads. Their commissions are also among the most reasonable in the industry. They offer a great introduction to institutional level trading and are also true ECNs.

**www.Cfhmarkets.com** - These are completely institutional level brokers; they have no facility for retail clients whatsoever. They do, however, offer very tight spreads (sometimes 0.5 pips on EUR/USD) and reasonable commissions. This is a true market so be prepared for slippage.
The reason I wanted to become a professional trader was simple; I value freedom, flexibility and uncapped earning potential more than anything else. Surprisingly, this includes safety and comfort. While financial security is what most people desire to achieve; I long for excitement. I thrive on waking up not knowing what the day will bring and I love having the power to achieve limitless success.

When I discovered Forex and realised that it was a business that could bring me those things, I never really looked back. To be honest, I didn’t consider exactly how I was going to get there; I just kind of thought I would learn a strategy and trade it on money...

As we have previously discussed, trading is never a simple game. Most of the time there are a hundred other things to take care of before we can just ‘trade a strategy on money’. One of those things is trading psychology.

It can be extremely difficult to explain trading psychology to someone who has never traded. In their view, if you have some rules to follow, and those rules make money, why wouldn’t you follow the rules?

To us, as traders, it’s a rabbit hole that we almost deter people from jumping into.

The first psychological issues we face are the basic emotions such as fear and greed.

When I first traded for other people on a small scale, I was terrified to place a trade in case it lost. Inevitably, this kept my risk low, but it also impeded my ability to actually make a profit. That wasn’t good.

The other side to that coin is greed or revenge trading, and while I have always been naturally good at switching off my emotional attachment to money, I have met and worked closely with other traders who are not. These particular people have provided me with some of the most fascinating and mind blowing experiences of my trading career thus far...
I remember right after I had taken on a few private accounts, I met a couple of other traders in my local area through trading forums and they were, in my mind, slightly ahead of me in terms of experience and size of funds traded. Nonetheless, they were still trading either private accounts or their own pots.

Because I thought it would be good experience to mix with these guys on a daily basis, I suggested that we rent a local office space, and trade together for the London session.

They agreed and we moved our stuff in and began trading our respective accounts.

For a start, I felt way behind in terms of equipment; these guys had multiple monitor displays, expensive computer equipment and subscriptions to price and order feeds that I had never even heard of. Looking back, I must have looked like a total amateur with my laptop and free charting software!

As the weeks went by, I witnessed things that I would never forget; things that would come to serve as valuable lessons.

One particular day, we were discussing the concept of different brokers of commission splits and I suggested that they sign up to my broker at the time (Dukascopy). I had a very good relationship with this broker, and could probably get them a better deal on their spreads. To my satisfaction, they agreed and made the switch.

In return for this I received a split of their commissions from the broker each time they placed a trade (half of which I returned to the traders) so everyone was a winner.

Several days later, one of the traders got into a position just before a major news event, and by the time the event came out and the price rocketed against his position, his fill was not honoured. Essentially, due to the massive amounts of liquidity pushing the markets only one way, there was simply no one else to fill his order at that price. This was to be the start of events that would result in a series of revenge trades, a £100,000 loss and a massive bonus for me in terms of commissions!

As you would expect, the initial slippage cost him quite a few pips, but it wasn’t a total disaster. In the moment, however, he decided to place a trade in the aftermath of the announcement, in the direction that the market was heading and it lost. The trader assumed it was a retracement and that now it had pulled back he would get back in. Needless to say, he lost again.

With each new trade there was less and less rationalisation behind the entry and more and more leverage used to claw back his previous losses. As an IB for his account, I was privy to the account statements and could basically watch all of this unfold quietly on the other side of the room.

This went on for two or three hours until he had lost over £100,000 (almost $200,000 at the time).

As you would expect, he was absolutely devastated and a total mess, to the point of being physically ill! Adding fuel to an already shattering fire, the account he was trading had suffered massive damage. I witnessed him get sucked into a black hole of revenge trading and it was not pretty. I decided right there in that room that whatever I did, I would never do that. I would rather have my steady smooth losses associated with switching and keeping risk tight than that.

At the end of the month I received almost £6000 in commissions and these were delivered straight into my bank account. It was a bittersweet feeling, knowing it came as a direct result of my good friend being totally fried. I took him for lunch.

However we try and cover our angles, the psychology of trading will always somehow get us; even more
so when we desire to trade large funds, as I was about to discover.

Up to the point of trading for the fund, I had never really experienced any kind of emotions in my trading and certainly not to those extremes, but then again I had never really traded large size either...

My time came when I was allocated an account worth just around £70,000 as a starting point with the fund. I calculated my risk and I was to trade around three standard lots. For some reason that even to this day, I still can’t fully explain, when I came to place my first trade on the account, I froze. I literally couldn’t do it; the fear was extreme.

This was ridiculous; we were talking about £30 per pip. It was nothing really; but to me it was insane and I was physically ill just attempting to trade those levels. Considering my dream, I thought that my career as a trader was over.

But, after a few weeks and a few trades placed, I was fine and never looked back. In fact, just a few months later I was trading much larger accounts and pumping £10 million orders into the market on a daily basis. No other size affected me like the time I jumped to three standard lots.

In the industry, this is known as the ‘mental block level’; it’s the point at which your brain gets freaked out by the cash value of your trading. It only occurs once, and once you are past it, it rarely happens again.

All I can say is that it can be any value level from five mini lots up to fifty standard lots (depending on the trader) but you will know when you hit it. Bear in mind that trading through it is easier said than done, but possible.

This was one of the strangest and least expected psychological events in my trading adventure, and to this day it baffles me.

As my knowledge of the basics developed and I started getting into a position where I could find a strategy, place a trade, manage the trade and exit the trade, the psychological issues really began to take hold of me and subsequently drastically increased the time it took me to become consistently profitable.

Many people never release the negative grip that trading psychology has over them; they can’t see how it’s affecting them directly at the time, so it slowly undermines all of their efforts until they either end up broke or give up and go back to ‘reality’.

The problem is that you can hardly ever identify the problems as you go; it’s only with hindsight that they become clear and patterns emerge.

The first real issue on the road to trading a fund for me was that of ‘Recency Bias’. This is where your brain tells you how you’re feeling based on the most recent events, which is how almost all human brains operate.

From a trading point of view, you could have been profitable all month, then on the last few days you lose every trade you take, so because the most recent results have been negative (despite all your initial success) a negative mind set follows.

‘Recency Bias’ is built into all of us, and it’s not exclusively applicable to trading. Nonetheless, trading is one of those exercises that perfectly allows the effects to take charge and causes one of the most debilitating trading weaknesses that we have all been through at some point - ‘switching’.

‘Switching’ is where you stop trading a system because it ‘stopped working’.
From my experience of dealing with other professional traders, working with funds and being a trader coach, ‘switching’ is without doubt the number one cause of traders losing all of their money. It even comes just ahead of overleveraging.

If you are trading an account with a system that you have found or built, then, as we have previously mentioned, the cycle goes a little something like this; lightly back test the system and decide it’s amazing, then proceed to trade it on your account, take several losses until your balance is slightly negative from when you started and dump the system as ineffective...

If you continue this cycle several times with different systems, then what you get is an equity curve that smoothly falls until you stop trading or run out of money.

When you think about it logically, and with hindsight, it’s obvious and makes perfect sense. It’s inevitable that if you only trade a system until it loses then swap to another one and repeat that cycle, all you can ever do is lose money.

Sometimes, however, when you are in the moment, swapping and finding a ‘better strategy’ actually makes logical sense. After all, why would you continue to trade something that loses?.

This seems like the ultimate contradiction, but as we previously discovered, when you understand the nature of trading it makes perfect sense. The fact is that trading is not investing; it’s a game, like roulette, and just like roulette, it’s a game of odds and probabilities. This means that, just like any other game of odds and probabilities, the outcome of the next trade has nothing to do with the outcome of the last trade or even any supposed ‘odds’ that may be associated with that game.

Another example is flipping a coin. We all know that flipping a coin carries a 50 / 50 chance of getting a heads or a tails, but, if you flip a coin ten times you will very rarely get five heads and five tails.

**Why?**

Because just like roulette and just like trading, anything can happen on a small sample of flips. In fact, it’s not out of the question to get a whole sample of ten heads or ten tails; this is simply the nature of these types of games.

Now, try flipping a coin a hundred times or more, and you should see a much smoother outcome overall. You will notice, however, that in those hundred flips, there will still be instances of ten heads or tails in a row.

The more flips you record, the closer the outcome overall will be to your expected odds (50%).

The fewer amounts of flips you take, the more erratic the performance becomes and the more likely you are to experience results far away from your expected outcome.

Let’s go back to roulette and the reason casinos stay in business:

Roulette is also a game of odds and probabilities, but with roulette, the odds are ever so slightly in favour of the casino. The results, however, are almost the same.

You can walk into a casino and take ten bets on red or black and lose each one, even though you are ‘supposed’ to get roughly half of them in your favour. Equally, you can go into another casino and make a fortune on those same ten bets. The casino only makes money from you because you keep betting; the more bets you place the more the odds play out as expected. In this case, the casino wins ever so slightly...
more than you, taking all of your money and everyone else’s in the process.

Now, come back to trading, with the mind-set that it also is a game of odds and probabilities.

Remember, anything can happen on each trade because there are a hundred things affecting the market in each moment that may not be there in the next. The large traders moving the market are almost certainly not looking at the same set up that you are. In fact, all we are trying to do is look for price patterns that tell us when these large market movers might be about to make their next push on the market, and get in on the right side just before they do.

It is important to bear in mind that because we are just trading with odds, the fewer trades we take, the more erratic the results will be compared to our expectations. This explains those times when you start trading a strategy and it loses four or five times in a row. This is normal because you have only taken a few trades. To get the edge that you have to play out for you, you need to trade over a sustained period of time; only then will the system prove profitable on a consistent basis.

Remember that when you switch, you never ever give the edge time to play out in your favour and worse still, swap only when the results are negative. If you go back over every strategy you have ever used and ditched, I can almost guarantee that many of them will actually work over a sustained period of trading. What you didn’t do was give them a chance.

By the time I started trading my first client’s account, I was using a basic moving average crossover technique, which in my first month saw me take 4% out of the market. I was happy. By the end of the third month I was trading a completely different system, simply because I had experienced a losing streak, and my expectations were skewed. Needless to say, my equity curve slowly and smoothly dropped over the next few months until I stopped trading and evaluated what was going on. And the simple fact of the matter was, I had been switching to a loss and therefore losing.

I can almost guarantee that if you analyse the past six months of your personal trading honestly, this is something you will have been experiencing. The good news is that you probably have a lot of strategies at hand that you can test and trade with.

My time spent ‘switching’ did help me to develop a skill that I am pleased to have today; and that is the ability to create brand new systems from scratch and using almost no indicators. This came in particularly useful when I needed to change from the ‘scalping’ strategy to something more fund-friendly.

The good news is that now you understand why every strategy will go through a losing streak, and that if you test and prove it properly you can make consistent profits and you will find it much easier to identify and overcome the dreaded ‘Recency Bias’. The bad news is that it is only the start of the psychological issues.

Most new traders never make it past ‘Recency Bias’ and thus never actually experience the other psychological killers of trading. It’s similar to being stuck at the second hurdle and not being able to see over the other side. If and when you do ever make it past that one, the next one is even harder to overcome, and ten times more subversive.

The next hurdle I encountered was that of self-sabotage. This is such a poisonous, hidden issue that it is extremely easy to completely miss it and allow it to constantly hold your trading back until you basically give up.

Self-sabotage explains those bizarre moments in your life when you just know that taking a certain course
of action will result in getting you closer to your goal, but for some reason your own mind constantly stops you from doing it; either by distracting you with other things or coming up with ‘reasons’ why you can’t do it.

It is extremely difficult to explain, but if you have ever looked back and wondered why you did what you actually did instead of what you know you should have done, self-sabotage is your problem.

How does this affect our trading?

Again, as with so many of my revelations in this business (and more so in the realms of trading psychology), my various roles and experiences, not only as a fund trader, but also as someone who has worked with and trained hundreds of people, allows me to watch for the common patterns, relate them to myself and then identify them as something worth noting and overcoming.

I first realised how damaging self-sabotage was after witnessing it in many of my students.

There would be a fair few traders who I would coach through the ‘Recency Bias’ problem, and they would come out the other side, consistently profitable and in a much stronger position than when I first met them. Many of these ‘success stories’, however, would go on to completely undo all of their previous hard work and almost go right back to square one with their trading.

If I hadn’t witnessed it dozens of times over and over again, I probably would hardly have noticed it, even though at one time I had actually been affected by it. It’s a very similar concept to ‘switching’; you get so caught up in the act of finding a strategy that works, you fail to step back and realise that it’s the ‘switching’ that is killing your account.

Self-sabotage is very similar because you get so caught up with worrying that your strategy might stop working or that your performance isn’t as good as it should be, that you start focusing on ways to make it better or ‘switch’.

It is one of the main reasons why it took me so long to actually write this book; there would always be a distraction or a ‘reason’ for me not to do it, so I would procrastinate, despite knowing that a book like this would be extremely interesting to many aspiring traders, not to mention helpful to my own career. I knew it would be a massive benefit to my life to be a published author in such a sought after area. Self-sabotage has stopped me from testing and proving strategies that have shown extremely great promise, developing training material that I know would be extremely unique and helpful to other traders and starting a whole host of other businesses outside of trading.

It is also the reason that I have a pile of FSA registration forms on my desk right now, that I haven’t yet filled out because I’ve ‘been busy’. Despite not doing this, I am fully aware that my track record combined with being fully independently regulated by a major government agency will gain me access to millions of pounds worth of investment and immense amounts of credibility among my investors... sigh.

I remember one student of mine had just completed the testing of a strategy as I coached him to do, and he was doing extremely well. One day he wrote to me expressing grave concerns at his performance and how worried he was that his strategy might not be working. He really wasn’t sure what to do.

This sounded strange because I knew he was doing everything right and I couldn’t imagine that his strategy would just stop working a few weeks later. Confused, I asked him to send me his data and his account statements so that I could get a better idea of what was going on.
It turned out that nothing had really changed in terms of his performance, except that he had recently had a few losses, but nothing that wasn’t already to be expected from his strategy. I remember showing his data (with his permission) to a group of students that I was coaching at the time. I wanted their unbiased take on what they were looking at. Almost every single trader wanted to know more about his strategy and how he was achieving such fantastic returns, and everyone was in agreement that this was the kind of consistency they dreamt of achieving.

When he saw their reactions he couldn’t believe it, and was instantly encouraged to continue on in his course and develop his trading further. Needless to say, his success continued.

The point which became apparent is that your mind makes you see or feel what it wants you to feel, despite the cold, hard facts staring you in the face. Irrespective of the fact that you want to succeed, if you don’t feel that you deserve it or that you should be doing it right now, your subconscious mind will always find ways of blocking your access to your goals.

One way to overcome this is to surround yourself with other traders who you can bounce things off, so that when you feel like you’re not performing, you can get their opinions. Most of the time, you will be surprised.

Another way to help with self-sabotage is to form a plan, in writing, of how you will achieve your goal, step by step, and follow the plan religiously. This will help to keep you on track and stop distractions throwing you off course.

Once you overcome the basic emotions of ‘Recency Bias’ and self-sabotage, your trading achievements will become limitless?

You may not discover many of these things until you are either ‘in the moment’ or past them; so hopefully this book can prepare you for the psychological journey ahead and help you live it as an adventure rather than a burden.
If you dream of trading millions and working with institutional investors and traders of a like mind, then you really do need a plan.

This is the one thing I never really had, because as we have already mentioned, most of the things I learned could only have been learned by actually doing them and getting past them, or by reading a handy book that someone who has been through that process has written.

Sadly for me, I didn’t have that book, so the whole thing took me much longer and cost me way more in terms of money and emotional stress.

This chapter is meant to simply provide you with a direct guide to what you need to do in a step by step fashion, and hopefully you will get to where I got much faster.

**Step 1 – Learn Your Niche**

You’re a currency trader, so absorb as much as you can in the way of education on trading the markets. This does not mean buying lots of expensive courses or seminars, because most people running these things have no idea about any of the pitfalls and hurdles that you will face as a professional trader. It’s likely that they have never made it past the first hurdle of basic emotions, and if they have, they almost certainly have never got past ‘Recency Bias’ and ‘switching’. All they can teach you are the basic emotional issues and technical analysis.

This does mean you will need to practice.
Spend time in front of the charts and learn to recognise price patterns that you can formulate into a strategy and test before going live. Remember that practice makes perfect and if you live and breathe these patterns, you will become an expert.

This process could take six months or two years (depending on what strategies you are looking at), but two years of inching progress is much better than five years of running in circles and losing money.

**Step 2 – Find Your Broker, Build Your Track Record**

Once you have learned your method of trading, the next step is to trade it!

As we have previously mentioned, it’s crucial to find a broker who is aware of your goals and to find someone who will help you when the time is right, even if you have to become an IB for them and introduce a few trading buddies to get them sweet. This, combined with your live trading, should encourage them to open some doors later on.

If you want to trade your own clients via Power of Attorney, then make sure they have those capabilities. Alternatively, if you are looking for some connections to existing funds, make sure they have those kinds of clients on board.

At the same time, register your trading account somewhere online, such as myfxbook.com, so that your performance can be tracked and verified; also take the time to locate some companies to do this later on. If your account is small then look for a local CPA that is willing to certify your trading results for you. When it comes to verification, remember that anything is better than nothing.

This should take around twelve months of good solid trading.

**Step 3 – Build up Your Contact Lists, Credibility and Exposure**

Ultimately, when the time is right, you want a network of established industry professionals who know you and are inclined to help you. They must also be aware that you are a ‘golden goose’ who will make them money with your trading.

It’s important to build up your networks before and during the time you are building your track record, as this creates trust and credibility. If you know your contact at the broker well, and have spoken to a couple of funds and have a blog or website where you regularly post trades and help newer traders overcome their problems, you will have massive credibility.

I once heard a saying that I loved: “Luck is simply preparation and opportunity coming together.”

So, if you want to get ‘lucky’, get prepared and create as many opportunities as you can.

LinkedIn is a fantastic site; it’s like the face-book of the business world, and you can almost guarantee that your contacts are already on there, so join up!

Write a book, offer to speak at local universities or colleges about trading for free, and submit articles to popular trading magazines or websites; anything that cements your status as an expert should be considered.
**Step 4 – Create Your Image**

Once you have your proven track record and a bank of contacts in the industry, it’s time to put them all together and start making some serious money.

Build a website, hire an assistant to handle enquiries in a professional looking manner, and create offline material such as brochures for your trading.

Your clients should be signing professional looking Power of Attorney forms, non-contact agreement policies, and client agreements. Everything should appear proper and professional, and most importantly, be branded with your company logo and that of the broker you are using.

All of this looks competent and trustworthy, and will be congruent with your proven track record. There is nothing worse than a ‘successful currency trader’, who made excellent returns last year, turning up to an investor meeting on the bus with no literature and cheap clothes.

People have a certain image of a currency trader, and you need to be that image, both with your actual trading performance and your overall appearance.

**Step 5 – Start Trading**

This might seem simple and logical, but it must be done as part of an overall plan similar to the one I have given you here. Trust me, if you go into this whole thing unprepared, you are in for a rough ride, and if you do make it, you will have definitely taken the long way around.

On the other hand, if you do it properly and plan everything from the very start, there is nothing that can hold you back!

The truth is that with the appropriate preparation, the easiest part to this whole thing is finding money to trade.

People are naturally greedy; this is why so many of them find themselves on the end of a scam or fraud. It may sound Machiavellian, but you can use this fact to your advantage.

When you can genuinely offer them verified, above average returns, and a credible, professional image, all you need to do is give a good sales pitch and they will be eating out of your hands!

Here is a list of advantages that a currency trading account offers for the individual investor:

- **Flexibility:** they can close it and withdraw their money at any time with just a few hours’ notice
- **Above average returns**
- **Complete security of their funds:** traders have no access to their money, which means they can’t steal it, and some brokers, namely Dukascopy, allow their clients to keep their money in an actual bank account too. The banks they use are not small either, including the likes of Barclays and Merrill Lynch
- **All returns are verified by an independent third party**

In fact, many people call a successfully managed Forex account “the perfect investment” for the obvious benefits over any other type of instrument on the market.

Once you have your first seed capital in place, and do well on this, your fund will grow exponentially.
I have indeed lived my dream thus far and achieved what I wanted to at the beginning of my adventure.

Looking back, I have made many mistakes, met some fascinating people and ultimately had my whole perception of professional trading turned on its head. The fact is that the people at the ‘top’ don’t really know any more than the people at the bottom; they are all just battling their human emotions and trying to find, and profit from, their niche in the markets.

I have seen so-called professional traders, managing millions, make serious errors that I wouldn’t have even considered making on my first demo account. On the other hand, I have also met some very successful people who inspire me to keep pursuing my dream until I make it.

The other curious fact I have discovered is that when you are firmly on your journey your ‘dream’ will alter and change many times, based on your experiences as you go. The dream becomes grander and slightly more elusive, and this is what keeps you going through all of those tough times, drawdowns and criticisms.

Trading a currency fund is fun, exciting and terrifying; nothing can prepare you for trading at that kind of level, no matter how much you practice. At some point, you have to push the button on a trade that will pump millions of dollars into the market, and maybe, one day, even more.

By the age of 26, I had travelled the world, and worked in more countries and with more people than I care to remember. I have lived in luxury apartments on the beach, trading from my laptop. I have flown to the other side of the world just for the weekend, to meet with fellow traders and colleagues. I have lived in cities and places that most people only dream of visiting for a few days, and all of this has been possible only through trading Forex online.
You may decide after reading this that it’s not for you, and you would prefer to remain in your job which gives you that much-cherished security. But if you have at least a shred of curiosity, or doubt as to whether you should go down this road, then my advice is to do it.

Make sure you plan and do it right and ultimately it will be an experience you will never forget!