

MAKING MONEY

OUT OF MONEY

TRADING A DAY JOB FOR TRADING

It's the stuff of mid-morning traffic jam day dreams. The concept of giving up working for someone else to make money yourself by trading the markets. And while some people have made a lot of money from trading the markets, whether they be the likes of stocks, commodities, futures and forex, these markets have broken more people than they have made. But still, people, lured by the promises of overnight wealth, still go sinking their hard-earned money into the self-belief that they can trade the markets and win. Yet many won't.



Trade With Precision's Nick McDonald (right) with colleague Toby Genaro on the floor at the New York Stock Exchange.

Then again, there are a few that do. Nick McDonald took the leap from full-time employment in 2004 to become a full-time trader. Not only did he make a living from trading but only a couple of years later, his broker asked him to start teaching others. Ever since then, he has been trading and teaching. That initial chat with his broker has now spawned into global business, Trade With Precision, which has helped thousands of traders approach the markets the right way.

And while Trade With Precision has become a bit of a runaway success, McDonald doesn't attribute this to standard business success nor his talent as a businessman.

"Your typical entrepreneur who starts a business can go and get really stuck into that business but with mine, the reason it's successful is not so much because I'm a businessman. My business is successful because I'm a good trader who also happens to be good at teaching people to trade."

It's a combination, which has worked well and over the last six years, McDonald has built up a business that provides education services to the world's major brokers, weekly market advice and training for thousands of keen traders. Many of whom would love to follow in McDonald's footsteps and trade for a living. And while McDonald has made a success out of the markets, he still started out the hard way.

McDonald was in London in the late '90s in the dot-com boom and although he wasn't trading at the time, it was something that was beginning to pique his interest. He decided that he wanted to be a stockbroker.

"I didn't really know what exactly a stockbroker was but I got a job back here working alongside the brokers and started the training to become a broker, so I learnt a lot more about the markets then. I started to do what I thought to be trading but it was actually just buying and selling. And I was buying and selling based on what I read in the newspaper and when you read something in the newspaper tomorrow, they are telling you what happened today. And if you go and try to trade off that, you are trading off things that have already happened – they've already moved and the money's already been made. At the time, I didn't realise the mistakes that I was making. I loved it but I was losing money. I was losing whatever spare money I had in my part time."

He also realised that being a good broker had nothing to do with being a good trader.

"I decided that I didn't want to be a broker after that. Brokers were salesmen, not traders. While I was there, I also saw brokers returning to work after leaving in the boom. They thought that they were such good traders but actually, it was just such a raging bull market – everyone was a good trader then. If you just bought some stocks, you were a great trader. So they were coming back to work because they had failed in 2001 and I realised that these guys weren't actually that good. And also, I was wasting money taking their advice. It was then that I discovered technical analysis."

Technical analysis is the study of charts and various indicators like price action, moving averages, support and resistance levels and Fibonacci lines. To many, the charts look like random lines but to some who know how to read them and understand them, there are signals, which indicate the potential movements in pricing.

"People have asked me why I am good at technical analysis and I don't know but if a thousand of us would have picked up a golf club for the very first time, the chances are that one out of 1,000 or maybe a couple would actually be pretty damn good golfers naturally. And I think it's the same with anything. For whatever reason, when I looked at a chart and actually learnt a little bit about them, things just really clicked for me. It just made sense. I already had some fundamental knowledge from my studies, from the broking floor and from reading the news, and I had learnt all about the markets. But it was when I started to look at charts to really time my entry into trades and make my decisions from them, that is when things really clicked for me."

McDonald's understanding of the charts and his ability to put money on the way they are tracking has afforded him a life without having to work for anyone else. And one of the biggest rewards hasn't so much been the money but the time. And while running Trade With Precision takes up a bit of his day at the moment, when McDonald was purely trading, he was only working two to four hours a day.

"I was drawn to the markets for the fact that I could work for myself. I had always wanted to do that. I didn't have kids at that point but when I did, I wanted to be there for them. I've got kids now and I have been with them for every milestone. I've seen them take their

first steps, utter their first words. I'm there for every breakfast and dinner. Some fathers don't want that but that's something that I really wanted and something that trading allowed me to do. I love it. I love the markets. It has its challenges like anything else but I love what I do."

Like the markets themselves, there was an element of risk in McDonald's move away from stable full-time employment to trading for himself. Something that he wouldn't always advise others to do.

"Looking back, if someone were to describe to me now the exact scenario that I was in and asked, 'Shall I leave my job?', I would say, 'No, you should continue to trade part-time until you build up enough money to be sure that you can give this a good shot.' I had no kids then, my then girlfriend who became my wife was working, so it wasn't completely out on a limb or anything; it wasn't like I was going to be living on the streets if it didn't work out. I didn't have a huge amount of capital but I really, really wanted to do it, so I thought I'd just give this a crack."

As well as really wanting to do it, McDonald was motivated by those who said he couldn't.

"When I first left my job, a lot of friends and family pulled me aside and said, 'Hey Nick, you've got a good job, traders don't make money, you shouldn't be doing this.' So the worst-case scenario was me failing and proving them right and then having them say, 'I told you so, you should have stayed at your job.' So I had a really strong driver there to make it work."

While some people didn't think McDonald could make it, others started wanting to learn how they could do what he was doing.

"Something that happened quite quickly is that people wanted me to teach them, so I started doing little living room sessions and that supplemented my income. People wanted to learn what I was doing."

Those side lessons have now become a successful global business. A business that McDonald was able to transport back over from London to here, largely thanks to the fact that the Trade With Precision webinars have become so popular.

"I was living in London and I thought, 'I don't want to live in London forever. I need to figure out a way that I can still run this business from New Zealand. So when we started doing webinars, our business actually improved, and then we started recording those webinars and selling the recordings and we realised that the recordings were the most popular. We run free webinars for about an hour every week where we get 50 to 100 people who are our prospects really; they have just come along, found the website and registered. If people purchase a course and watch the recordings, we then have our team mentoring sessions, which are live webinars where we teach people specific strategies and go through details specific to them."

And there is no simple rule across the board. It's not about one strategy for all. Nor is it necessarily one market.

"We also don't say that you have to trade on stocks, on Aussie stocks or UK stocks. We don't say you have to trade forex or you have to trade futures. We say, 'Let's figure out the sort of trader you want to be,' and then we say, 'Let's figure out which market you are most drawn to.' Some people just want to trade stocks, so we say, 'Okay, let's look at what stock market is right for you.'"

McDonald uses a recent client as an example of finding the right market to suit your lifestyle.

"We had an example of a guy in New Zealand who ran a café. When

he came to us, he was trading Aussie stocks. Now the Aussie market opens at midday New Zealand time. If you're running a café and you have to trade at midday New Zealand time and you're trying to serve customers, it's not the right market for you. He had been conditioned into believing that he had to trade the Aussie market."

McDonald suggests that it might be that for New Zealanders, more often than not, the foreign exchange is the ideal market because of the fact that it is 24-hour trading. Whereas in New Zealand we do not have our own stock market with enough liquidity to deem it worth trading, the Australian stock market opens midday our time, the US stock market opens in the middle of the night and even UK stocks will open at

7pm in Winter and 9pm in Summer.

"Personally, by 9pm, I want to be doing something else. I don't want to be sitting in front of my computer screen. The stock markets of the world aren't that ideal for our time zone, the foreign exchange market is ideal for most but then again, it's not ideal for everybody."

McDonald also warns that it's not so much down to the market you choose but how you trade them.

"I see traders all the time plugging away, trying to make money in one market like stocks, and then they go to a seminar and meet Bob, and Bob says, 'I trade forex and make a fortune.' So they think, 'Ahh, I've got to trade forex.' So then they go to forex, thinking that will be the answer. That doesn't work out, so they go to futures. They move from intraday trading to swing trading, they read a new book and they change strategy. People are out there searching for a secret that doesn't exist. The secret is hard work, persistence and dedication. Get the market right, get the foundations right. Get the basics nailed and then get really, really good at them. It's the same for business and sport as it is for trading. Do the basics well."

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As far as the basics are concerned, there are many different approaches to take. The biggest division falls between those who believe in fundamental analysis, which is relying on the likes of outside economic news, changing government policies and other factors that influence the currency values and those who focus on technical analysis. Some traders will focus purely on one form of analysis while some will use a combination of both.

While McDonald found success in the technical side, he is quick to concede though that his way isn’t necessarily the right way. McDonald references a book from the 1980s, which has become somewhat of a bible for traders, *Market Wizards*. The book comprises interviews with some of the world’s greatest traders. Two highly respected traders featured, with polar opposite approaches, were Jim Rogers and Marty Schwartz. Traders both earning millions a year but through different processes – Rogers by fundamental analysis and Schwartz by technical analysis. Both firm believers in their way. “I always laugh at people who say, ‘I’ve never met a rich technician.’ I love that! It is such an arrogant, nonsensical response. I used fundamentals for nine years and got rich as a technician,” Schwartz is quoted as saying in the book.

But McDonald points out that while these traders might be divided by some things, they are alike in other respects.

“These two guys are polar opposites. One made all of his money fundamentally and the other made all of his money technically, and they are head to head in the same book. And amongst the other traders in the book, everyone’s got different strategies, they trade different markets, they’ve got different backgrounds, different educations. Some trade for funds, some trade for themselves, some had a mentor, some didn’t. The backgrounds are so different. The things they do have in common though, are that they think a certain way, they have a certain discipline and they believe in themselves.” McDonald points out that sometimes in traders, this self-belief can be perceived as arrogance. Sometimes, it comes across as arrogance because they believe their way is the only way. But to be successful, you need that level of belief even if deep down, you understand that there are other ways.

“I aim not to come across as arrogant by believing that my way is the only way because I know it’s not. I might say to people, ‘This is the way that you have to do it’ but I don’t really mean that’s how you have to do it. Sure, that’s how I do it and that’s how it works for me but someone else might do it differently. But the key thing is having your rules and sticking to them. Have the belief in your strategy to stick with it through good times and bad.”

And speaking of bad times, the last few years have been tough for a lot of people but McDonald also points out that we shouldn’t let bad news cloud good opportunities.

“Warren Buffet is a good example. He’s a fundamental investor (as opposed to trader) and he’s getting slagged off left, right and centre in the press by people who don’t really know what they are talking about. He’s one of the richest men on Earth and he’s buying up stocks and is bullish on the US economy, and of course, people like to be pessimistic and drag everyone else down by saying how bad things are.”

McDonald suggests that it is human nature to focus on the negatives but the problem is that it can mean we are left behind.

“As far as the media is concerned, people like bad news, they really do and it’s what people talk about.

People like to talk about murders and bad governments and bad economies. It’s horrible stuff. In all honesty, if things are bad, I’ll admit that they’re bad but if things are good, I’d much rather be talking about what’s good out there. We’re in a bull market where there’s a lot of money to be made and there are all these pessimists who don’t actually catch up for a few more years until the media turns positive. At the moment, the media is not positive but there are guys like Buffet and so many people like him who are out there making a fortune, while the mums and dads who don’t follow the markets closely enough, they only catch up at the end because that’s when the media tells them to.”

McDonald concedes that there are parts of the world that have been hit hard, and industries here that have suffered but he also points out that for a lot of us, our living costs have actually decreased.

“There are certain parts of America, for instance, where property is worth less than it was in 1980. And cities like Detroit where things are genuinely bad but in New Zealand, in all honesty, there are very few people with anything to complain about. While unemployment has gone up, for most people, they are still earning the same as they were and their mortgage costs have gone down, which is most people’s biggest expense, so things are pretty good in New Zealand. In fact, a lot of us are actually better off. We just like to read that things are bad in America and then pretend that they’re bad here as well.”

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Yet conversely, while some people are fixated on the doom and gloom of the global economy, some people, either driven by greed or desperation or a combination of both, have an unrealistically optimistic perception of some of the offerings surrounding trading the markets. Many overestimate their own abilities or are taken in by companies offering “the secret” to trading success.

“What we’ve found is that when we try and market, we can’t compete with our competitors who are more sales and marketing led. Because our message of, ‘Hey, we can help you if you work hard’ versus their message of, ‘This is easy, guaranteed success! You can be a millionaire by Christmas’ isn’t anywhere as powerful. Our advertising gives us nowhere near the bang for buck that theirs does because we tell the truth.”

But the fact that McDonald’s company doesn’t compete on false promises of overnight success has meant it has found favour with corporate clients and brokers who want to teach their clients the right tools for long-term success.

“One of the reasons why our company has grown so much is because the corporate invite us to speak so much. They invite us to speak to their clients. Like CMC Markets here in New Zealand. They’re the ones who spend a fortune on advertising. They then want us to educate their clients. And equally, brokers all around the world in America, UK and Australia. We are the main company that those guys turn to when they want education.”

Yet, for every person who wants to learn, there are plenty more who want a quick answer. The biggest question McDonald gets at trader shows is if he has a trading room where people can log on to and copy his trade.

“Everyone wants us to have a trading room, everyone wants us to have a black box, everyone wants us to have the magic indicator where it turns green and you buy and it turns red and you sell and everybody makes a fortune off it. And I say to people, ‘Look, that is all over the internet. That stuff is being sold everywhere. If you want that, you’ve got no shortage – you’re spoilt for choice.

There are thousands if not hundreds of thousands of people selling that stuff. Find me anyone, anywhere on the planet who is making a living following someone else’s signals. I don’t even care if it’s one of those black box systems, anyone’s signals, find me someone who just has their broker place all their trades for them and makes a living. Find me someone who has just subscribed to a trading room and follows them and makes their living – not just has a good couple of weeks or a good couple of months but makes their living. Find me someone anywhere that does that.

“Go and look at the rich list, the 500 richest people on the planet and they are three things: they’re business people, they’re property developers and they’re traders. Traders make a fortune but they’re not making a fortune following somebody else. They’re making a fortune because they’re doing it themselves.”

And yet go and look at the rich list, the 500 richest people on the planet and they are three things: they’re business people, they’re property developers and they’re traders. Traders make a fortune but they’re not making a fortune following somebody else. They’re making a fortune because they’re doing it themselves. That’s what we try and teach people to do. Sure, we could make more money if we sold “the secret”, the black box system but we’d also have a very bad reputation. And our corporate business would go out the door virtually overnight because we’d be suddenly put in that category of the charlatans, which we’re not. We teach people how to do it, we tell people the truth. And we lose business because of it. If you are new to trading and you come along to one of our seminars and we tell you it’s going to be hard and then you go along to someone else and they tell you it’s going to be easy, you’re going to go with them right? They use pictures of super yachts and girls in bikinis in front of Lamborghini and they’re wearing the big gold watch and telling you how easy it’s going to be.”

McDonald actually finds though that many of his clients are those who have actually tried other “easier” options and realised that there is no simple secret. Nor is there a simple answer as to who makes a good trader.

“Some of the good traders have come from places you wouldn’t expect. It’s not so much about intelligence or education. The biggest differentiator for me is not intelligence or ability to understand the strategies or even the technical competency to use a computer, which is critically important because we are online trading but that’s still not the most important aspect. The people who I think are doomed for failure are the people who don’t think that mindset is a huge part of it. People just think, give me the strategy and I’ll be a good trader. But what makes a good trader is not the strategy, not the timeframe, not the education; it’s not the intelligence, it’s the individual and the discipline they have. They learn from their mistakes. They handle fear when they are doing badly. They handle hope when they are trying to make their money back and greed when things are going well. Why do so many property investors fail? Because they get overleveraged in the good times and then collapse in the bad times. Why do so many businesses fail in the downturns? Because a lot of them take on too much risk and debt in the good times and then things turn bad when it’s not so good. Traders do the same thing all the time and it’s largely based on emotion. They get overconfident. In a down patch, they become under-confident.

They do stupid things. They try and make their money back too quickly. The reason they do that is they get fearful of losing everything or they get greedy, trying to make more. They get frustrated, which leads to silly mistakes.”

Hand in hand with managing emotion goes managing risk, suggests McDonald.

“Risk management is about survival. Risk management is about giving yourself a chance to succeed as a trader. It’s absolutely crucial, otherwise you never get a chance to manage your mindset or get good at your strategy.”

McDonald teaches people to only risk one percent of their trading account per trade. That means if they have \$10,000 and they’re wrong on a trade, the most they’ll lose is \$100 and that will be constantly reducing as long as they are losing because they’ll still only be risking one percent of a reduced trading account. Conversely, if they are making money, that one percent is going up slightly.

“I talk about this at seminars and then I get people coming up to me afterwards arguing it. One guy came up and he said, ‘You’re talking about one percent per trade. Well, I’ve got \$10,000 and I want to make \$2,500 a week. What’s the point of risking one percent? I can’t do it risking one percent. I have to have 25 winning trades a week.’ The example I try and illustrate to get my point across to people about what they are trying to do is the fact that Warren Buffett is one of the richest men on Earth from making 25 percent per annum for 40 years. These guys are trying to make 25 percent in a week and wondering why they are not succeeding. One of the richest guys on the planet is rich by doing in a year what these guys are doing in a week. He’s done it consistently. It’s not about taking on very big risk, it’s about taking on small risk and giving yourself a chance to get good. Most people wipe out. They don’t give themselves a chance to get good. And that’s one of the reasons that brokers want us to educate their clients.”

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The fact that so many unprepared traders have lost money on the markets has inevitably given brokers a bit of a bad reputation. But McDonald says it’s a myth in the trading world that brokers are out to fleece their clients of their deposit.

“People think that if they put \$5,000 into their trading account and they lose it, that their broker has made it. That’s rubbish, the broker makes money when you trade. They make a commission on you every single time you place a trade. They don’t really care if you win or lose but they do want you to trade for a long time. If I can help someone with \$5,000 in their account to trade it actively for the next ten years, then the broker’s happy.”

And if you are able to survive the markets for a long time, regardless of your percentage earnings, you stand a better chance of success.

“If you are really passionate about the markets and all you do is manage your risk, so long as you do it properly, you are giving yourself a chance to get good. So by the time you’ve placed 1,000 or 10,000 trades, if you’ve managed your risk properly, then you’re still going to have money and you’re going to have learnt a lot purely because you’ve placed so many trades. But most people never get there, they don’t manage their risk, they’re trying to get rich quick and they’re trading off emotions. They’ve got no strategy. They think trading will be easy, they go out trying to get rich quick – whether they admit it or not that’s what they are trying to do – and they just prove to everyone else that there is no such thing as a “get rich quick” scheme – not from the markets anyway. 📌