executive
Money

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THINK!

Markets are not random and investors would do well to make their calls based on interpreting signals. But that doesn't make it easy, as trading coach Ray Barros tells **GENEVIEVE CUA**

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YOU'D expect a chat with trading coach Ray Barros to be peppered with talk about trend channels and formations — stuff that technical traders thrive on. Instead, he speaks of the "truths" of the market, emotional habits and fears that could escalate losses. And, yes, a health warning for those whose curiosity is piqued by advertisements promising to make you a whiz trader in a jiffy.

"Many people think trading is an easy way to make money. I start off telling them, it's the hardest profession in the world. They need to learn from mistakes. They need commitment, perseverance.

"Most people don't have commitment but they're caught up in the glamour. Generally 90 per cent lose money."

Mr Barros, a former lawyer, has been trading markets — mainly futures on the S&P, Hang Seng or the FTSE; currencies, 10-year bonds and precious metals — since the mid-1970s. A former lawyer, he sold his law practice in Australia after a winning streak made him think he might make a successful trader. It took him seven years to learn his craft.

"Whatever I got for selling the practice, I lost in 12 months. For the next six years, my wife supported me while I shoved money out the window ... Too many people in the desire to attract customers make it sound like they can teach you with little effort and capital."

Today, believe it or not, his track record — based on a value added monthly index — reflects a whopping 39 per cent per annum return on a compounded basis, turning a hypothetical $1,000 into $100,000 over a 14-year period between 1990 and mid-2004. He has parlayed his "edge", as he calls it, into a fund into which friends, including retirees, have invested sums of money.

Mr Barros has been conducting seminars in Australia, with stints in Singapore, for the past 15 years. He took a two-year break from teaching, but he has resumed the seminar circuit here.

Key tools

What is the secret to trading consistently — if that is at all possible? First, a "winning psychology" which must include honesty and the ability to take responsibility for your losses. You must also find ways to cope with drawdowns or periods of losses. Trading derivatives, as Mr Barros does, does not need large amounts of capital. You can start with relatively modest sums through "contracts for difference". But derivatives trading is less than a zero sum game once you've factored in transaction costs. Add to this leverage and a failure to put in a stop-loss limit, and your losses can hit you like whiplash.

And this brings us to the second key tool of trading — journalling. Those who are serious about trading should keep a daily diary of their trades. "Journalling is the way to keep your balance. Used properly, it's the only tool that can help pinpoint what is wrong. It's the difference between a winning and losing trader," he says.

You must also have a good sense of money management, or balance. "You have to balance the risk of ruin with the maximisation of profit," he says. "If you have $1 million, there's no point investing just $100. You're not maximising your profit. On the other hand, you don't want to put all $1 million into one share in one go, because the risk of ruin is very great. That's a factor of the volatility of the market and your hit rate — or how often you're right.

"Unfortunately everyone needs to invest. It doesn't have to be in stocks. It can be real estate. You can't achieve financial independence without investing. The sad part is most people didn't realise that 1982 to 1999 was the greatest bull market in history. We lost that opportunity."

Between 1983 and 1999, the S&P 500 generated 14.8 per cent in annualised returns. Mr Barros reckons we're in a period akin to that between 1962 and 1982, when the market was choppy with sharp corrections and rallies. In that period, annualised return was just 2.5 per cent.

A successful trader also develops an approach to the market that must have an edge. Rather than mechanical rule-based trading, Mr Barros says his courses seek to help people interpret signals and ultimately make a judgement call. Until around two years ago, he used to run an intensive "mentor" course, taking a handful of students for 18 to 24 months at a time. This involves much more handholding than his seminars.

"I had 400 students, of which maybe only 5 per cent used my tools. They went and found their own. What I taught them was a way of thinking. That's what I'd like everyone to end with. The tools are important but the way you think about the market is the most important."

So what is it about the market that you should understand? Markets, he says, are not random. They have a structure and this is one of the central tenets of technical analysis. "Things repeat themselves because they reflect human personalities. Ultimately, human emotions generate bar charts. That never changes. The most important thing is to have a mindset that thinks in probabilities. If you believe you can be right about the market all the time, you're heading for a crash."

Sceptics, however, say technical trading doesn't work and isn't predictive of trends. In any case, how much of Mr Barros' track record was due to the bull market that lifted all boats? He maintains that he wasn't trading just stocks, and his overall returns were good, stripping out the stock component.

As for charts, they say nothing about the future. "A chart is nothing more than a visual representation of what happened during the day. What charts do is to help you assess probabilities. That's all. If things happen outside the boundaries, you're wrong. You take the loss and walk away."

STAY COOL

'When the market is trending, you follow the crowd. That's when profits come in. When the market is going sideways, you want to be contrarian. Buy the bottom, sell the top.

The key is to tell when things are changing. It's not that hard. But the difficulty is your emotions. When you make an emotional decision, nine times out of 10 you'll be wrong.

I think we're in a period of stagflation. I'd be looking to buy bonds. I wish I had bought earlier, but there would be opportunities.

We're in a presidential cycle which works only in a sideways market. What happens is the market starts to rally around June and July until October and November. Then after the elections, the market will come down. It's not a gentle down, but down for a year or two.'

— Ray Barros, trading coach