

INTERVIEW

The Ins And Outs

Daytrading With TheStockBandit's Jeff White

Jeff White, founder and chief technical analyst of TheStockBandit.com, started trading the markets in 1998 and has since gained extensive experience in both stocks and options. His trading style has gradually evolved over the years, including, as he mentions in the interview, understanding the true usefulness of the exchange of ideas for an individual's trading.

STOCKS & COMMODITIES Editor Jayanthi Gopalakrishnan (JG) and Staff Writer Bruce Faber (BF) interviewed White via a conference call on January 7, 2008.



JG: Jeff, how did you get interested in trading?

My wife and I put some savings into mutual funds in the summer of 1998. That third quarter the market corrected and we lost money. So I decided that I would rather learn how to do it myself and turn to individual stocks rather than just mutual funds. That is when I became a trader.

JG: How often did you trade starting out? How long did you hold onto your positions?

Back then, I would hold onto things one to two weeks at a time. We got into a period not long after I started when the market saw a lot of what turned out to be excessive momentum, with the NASDAQ virtually tripling in the next year and a half. So it was a good time for momentum trading. I found that I liked to grab stocks as they were starting to break out of patterns. Because I was trading short term, I turned away from fundamental concepts and went purely into the technicals based on the price action. As I saw resistance levels being broken, with demand increasing for a stock, I saw that was breaking through ceilings, and that was how I was basing my entries. I would take my entry and ride the move as long as I could until it fizzled out. Then I would move on to the next idea.

JG: It sounds like it is extremely simple, but we all know it's not. First of all, you

mentioned that you were looking for stocks that were breaking out of patterns. Are there any specific patterns you like to look at?

I look for classic chart patterns like bear and bull flags, wedge patterns, triangles, and consolidation-type patterns like rectangles or channels. Those are the ones I key in on. It is not that I've found they work so much better than some other method. What they do is keep me disciplined. They make things black & white for me as far as when to be in and out of trades. That is what is most important to me because I try to approach my trading with a survival orientation. I want to preserve my capital first and foremost. Yet I put that capital at risk in order to turn a profit.

JG: So how do you balance capital preservation and risk?

I have to determine which possibilities give me opportunities for profit but limit potential risk. These patterns give me clear-cut entries and exits, most of which are consolidation areas where there has been a move preceding the pattern itself. Then we get a period of rest or basing action where the stock will quiet down and settle into a miniature trading range.

A continuation move out of that range is what I play. I prefer the continuation type of pattern, which is why the flags, wedges, triangles, and consolidations are the ones that I favor.

Traders tend to overstay their welcome in a trade. Whether it is a winning trade or a losing one, they hang on too long.

BF: You said you used the triangles, wedges, and so forth to get in. What is your sell pattern?

A failure of that pattern. Depending on how narrow or wide the pattern is, to me a failure is going to be a breakout that stalls and then falls back into the base. Let's say we are looking at a rectangle within an uptrend. So a stock may break the upper trendline of a bullish consolidation. A breakout to the upside would be my entry. A failure, either back into the base or back beneath the base depending on the width, is going to be my stop-loss, at which point I know the pattern is no longer valid. That is when I am going to be stopping out of the trade.

JG: Do you combine those patterns with indicators?

Not really. I just stick to price and volume. I'll draw trendlines and locate those patterns, but that's it. Some indicators work well at certain times, but across the board there is nothing I use consistently just because they are de-

rived from price and volume. So those are the things I focus on the most.

To me, and maybe to a lot of other traders out there, I know that technical analysis can get complicated if you let it. I'm a simple person. I like to keep things simple. For me the hardest part of trading is actually making the trade — getting in and out at the right levels. If I cloud up my charts with too many indicators, I don't make many decisions.

It's not that I make poor decisions — I make fewer. I need to be decisive. I remove the indicators so I can key on price and volume, and what that allows me to do is just be more decisive with my trading. Because they are derived from price and volume, I find that they are secondary to what I am already seeing in the charts.

BF: When you draw your trendlines to locate patterns, do you use the open and close, or the highs and the lows?

I use the highs and the lows.

BF: Do you trade only the long side, or do you trade short also sometimes?

I trade the long side and short side both. As a trader, I feel that my time frame is so short that the concept of unlimited potential risk on a short sale doesn't apply to my time frame. But that doesn't mean I am immune to some massive move against my position.

If I were to stay short a stock for a couple of years, then there is a much higher theoretical risk the stock could keep climbing against me, but over the course of just a few days, it is much less likely. So it is important for traders to at least consider trading the short side sometimes, because there are markets where that opportunity exists — like the market we are in at the moment.

JG: How do you go about selecting the stocks to trade?

I've got a charting program that is updating constantly, but usually I do my work in the evening for the following day. What I do is review a great number of charts — usually over 1,000 — and I manually go through them each night. I'll note the ones that look halfway interesting. They usually look like they

have some kind of pattern developing. Then I will go through that list a second time and find my trade candidates for the following day. At that point I am looking for the cleanest patterns. I look for stocks that appear to be poised for some kind of sympathy move with whatever the prevailing market trend is.

JG: So you look at these charts manually? That's a lot of charts!

Yes, I do, and yes, it is. I know there are scanning programs out there to search for exact criteria, but I cannot mathematically define the perfect pattern. If I were to try to program that, the computer may overlook a slight discrepancy that might offer me the potential for a trade. You can develop a habit of reviewing charts and train yourself to look for something in particular, and after you do that, the process becomes faster. When I originally started looking through charts, I would look through a couple dozen each night. That was plenty of work for me because I moved slowly. As I became faster, I could add more to that list and review more stocks in the same length of time.

Putting 1,000 stocks in front of a new trader would just frustrate the trader, but you can start small and develop a feel for what you want to trade. You can move faster as your mind becomes accustomed to the task, and it becomes easier.

BF: Do you trade all equities or just specific sectors?

I trade all equities. The only thing I really limit is I don't trade many cheap stocks. Anything under about \$10 I really don't trade. I try to stick with more liquid stocks that could average 500,000 shares or more a day.

JG: So if somebody is starting out, and they only start with a few stocks, what is the best way to go about selecting those few? Is it good to look at sectors?

You can do that, but newer traders really need to focus on finding a trading method that is going to suit their personality. That will encompass your trading criteria, such as how long you're going to be in trades and how active you want

to be. Someone who wants to trade full time could be much more active than someone who works all day and only trades in the evening. At the same time, a new trader ought to determine what position size they are going to be trading. That will depend on what stocks they can trade effectively, and also what their directional bias is. Then some traders are more intent on trading the long side or the short side, and these things need to be included too.

But these are things you may not know during your first week or your first couple of months of trading. As you start to experiment, though, you will find out which types of trades suit you. From that point on you can focus on what you like to trade. That is what I would suggest for beginning traders.

JG: How did you start out? Was trading just a part-time thing, something you did in the evenings, and you put on your trades before the market opened?

I started part time for the first maybe year and a half. I would do my homework in the evenings, place my orders, and let the software make those trades for me the following day.

I decided to begin trading full time in 2000 — that was an interesting time to start. A lot of people quit trading that year. When I became a full-time trader I got much shorter term and I only daytraded for the first several years. I really liked that because it allowed me to come in each day with no market bias at all. I could start and end the day in cash, taking advantage of whatever move the market offered during the market hours.

JG: Was that a little nerve-racking?

Yes. When I started trading full time it was in a daytrading office and there were about three dozen traders. There were different trading styles across the board in that group, so there were always interesting discussions about which styles were working and which ones were not. The ones that were not working were as helpful to me as knowing which ones were. To be in an office with other traders allowed me to see the mistakes that traders of all kinds make, including me.

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To be surrounded by other traders really accelerated my learning curve. I started off trading very conservatively. That helped me survive the first year or two, because there is such a steep learning curve in full-time daytrading. The blend of my conservative trading style and staying aware of the styles around me — that is, what trading style was working and what wasn't — helped me to a great extent.

JG: What were some of the styles that weren't working?

A lot of traders have a tendency to overstay their welcome in a trade. Whether it is a winning trade or a losing one, they hang on too long. I was told once by a more experienced trader that hope is not a trading strategy, and I really believe that. It is easy to get caught on the wrong side of a trade, so you want to hang on and you hope that it comes back. I saw plenty of people do that. I saw them battle these stocks and refused to accept that they were wrong, which is what it boiled down to. They weren't willing to accept that they might have some losing trades. They wanted to be right all the time, and that is very costly in the stock market.

I also saw traders develop styles with very high success rates, but when they did not work out, it was very expensive. They would make capitulation moves. When they were early in those trades, they kept having to add and add until they ran out of buying power. At that point they were at the mercy of the market. Those are the trades that would work nine out of 10 times, but that 10th time would cost them their ability to trade and they would have to go back to a regular job.

I love trading, but I also saw the reality that it can bring when you try to argue with the market. It is bigger than we are. So that was a good experience for me, both to learn from my own trading but also to get me focused on what I absolutely cannot do.

JG: I can see that. Judging from your experiences at *TheStockBandit.com*, when you see traders who overstay their trades and keep doing it over

and over again, do you think there is any way to change that habit?

It depends on the person. Some people are more coachable than others — those people would like to have some input on how to go about formulating their trading plans. Those people are teachable.

I should clarify that. I do not teach only one trading style. Each one of us is different. We all have our own style that fits our personality. A trader who is in the habit of taking large losses typically will get to the point where they either go for broke and usually end up broke, or they back away completely from trading and lose their confidence.

It is very important for traders to keep that confidence intact. That is one thing a lot of traders overlook. Many traders, especially newer traders, are attracted to the market by the allure of large profits in a short time. They don't consider the damage they could do to themselves. They start off trading too big or too frequently, and the next thing they know they have lost their confidence and are afraid to make a trade, and they are in no position to make it back.

I have always believed traders should start off small while they get a feel for how the market mechanics work, get familiar with executions and their trading style, and the software they are using. Once they start to show some profits, they can start bumping up their trading size to where they are looking at the profit side more than just protecting their loss. I think that early on, the focus has to be on survival.

JG: You said earlier that you think of preserving your capital first and foremost. Do you have a money management strategy in place before you enter the trade?

It is better phrased to say that I know what my dollar risk is before I enter a

trade. In that regard, yes. Before I enter a trade I know at which point I am going to be getting out. And I know what it is going to cost me if I am wrong.

I want to be taking trades from patterns that offer me a potential reward that is a multiple of what I am risking. If I am risking a dollar, I don't want to take a trade that I think only has the upside potential of a dollar, because then I am just flipping coins. What I want to do is put money at risk when there is a larger payoff. If I can make three or four dollars on that trade, then I will put that dollar at risk. That is just smart money management. Over time, even if I am 50/50 on my win-loss ratio, I still come out ahead with that method. Knowing where the exit is in a trade is very important. That is another element of the psychological capital I referred to.

If you follow your game plan, you won't be kicking yourself as much even for a losing trade as you would if you lose your discipline. That is something else I try to instill in other traders. Formulate your plan, and then do whatever it takes to stick to it. A lot of great tools out there allow you to do that.

There are advanced conditional orders, and there are alerts you can use to get out of the trade, or just using the plain, old-fashioned stop-loss. That is better than nothing, especially if you are a trader who tends to go from one emotional extreme to the other.

JG: What else?

One thing a lot of people don't understand is that a bad day for a good trader is one in which you've taken quite a few small losses. A bad day for a new or inexperienced trader is one in which you've had a bad trade just roll over you. They stayed too long in one trade and that ruined their day. A bad day should be one in which your method simply didn't work for you over a number of attempts.

Every trader has good days and bad days. There are always good days, no matter what style you trade. Everyone has the ability to find a profitable trade, but it is the losing days that do the damage. That is what sets the mark for a good trader versus a bad trader. It is



how you manage your losses. That is where most people miss the boat. They think they have to find a method to get larger wins, but they would be far better off if they first looked for a way to limit their losses.

JG: The only way to do that is through experience and making mistakes, as long as you keep them small.

Right. Newer traders need to experiment with very small amounts because you can lose a lot of money quickly in the stock market if you trade too large and if you don't know what you're doing. Starting small and aiming to find a method that suits you early on is the most important thing.

BF: You mentioned a trailing stop earlier. Do you move up your exit point as a stock appreciates?

Yes, and what I tend to do is set two profit targets for a trade. I typically set just one stop-loss for the trade. My entry is in one piece and my stop-loss is in one piece, but if I am profitable on the trade, I will usually scale out in two pieces. I will raise my stop-loss once my first target has been met. That first target is generally one and a half to two times what I am risking to the downside. If I buy a \$25 stock and I am risking a dollar in it, my initial stop is at \$24. I am going to be looking to make \$26.50 to \$27 as my initial target. Once that level is met, I will sell usually half my shares, and I will raise my stop-loss, often up to breakeven. Then I have reduced my risk in the trade. I have booked some profits along the way and now I am still on for a ride in case it continues.

BF: Once you do that, you said that people stay too long in trades both up and down. What is staying too long in a trade that is going up?

Traders can fall in love with a good winning position but overstay their welcome. They expect too much from it. What started out as a shorter-term trade they end up holding for a different time frame than what they originally entered the trade for. That would be like initiating a trade as a one- to two-week trade

and two months later going for the fundamentals. That kind of thing usually comes back to bite you.

JG: Say you have somebody who formulates a trading plan before they make a first trade. And they make several losing trades early on. Wouldn't that discourage them, lead them into giving up?

Yes. After all, accepting losses is part of trading. You have to know there are going to be winning trades and losing trades. There are going to be up and down days, and weeks, and months. If in your first day as a trader you have several losing trades, that might not be a bad thing because you have gotten a lot of respect for the market on your very first trading day.

You've probably heard plenty of stories about traders who made money on their first trading day or in their first venture into the market. They start to think it is easy to do, and that's understandable yet dangerous. But at the same time a newer trader who starts to lose money is also gaining respect for the stock market, even though they are paying for it.

JG: As long as they realize that.

Depending on your trading style, there are better times or better market conditions to implement that style. That goes back to asking what your time frame is. What is your directional bias? How big are your positions? What types of setups do you like to trade? All this can help you limit those losses when you recognize that the conditions aren't right for the strategy you are implementing.

JG: So when did you start TheStockBandit.com?

I started it in 2004.



JG: So you started it about four years after you started trading full time?

At that point I was no longer in a daytrading office. I wanted to build a trader community for the exchange of ideas. At the daytrading office, I found that a flow of ideas was enjoyable, because it allowed me to interact with other traders. These days, I interact with other traders who post about the trades they are doing, and we all talk about the things we are seeing in the market. It forces me to keep an open mind of what could happen in the market.

JG: You also have a blog, right?

Yes, at TheStockBandit.net.

BF: What's the difference?

At TheStockBandit.net, I produce educational articles for my readers and discuss trading concepts. That is really the difference between the two websites. TheStockBandit.net is conceptual, while TheStockBandit.com is practical. I'm teaching the concepts behind my trading method on the blog, and then I am actually showing my method on the main site. The idea behind the blog is to provide something of value to people whether or not they sign up for the newsletter. I really enjoy it. It keeps me focused on what I am doing with my own trading and what is going on in the market. It definitely overlaps with my own personal trading.

JG: Often when people trade by themselves it does get lonely.

Nowadays, with instant messenger and Skype, you can stay connected to other traders in different parts of the country or around the world, even, and you can create your own virtual trading room in that way. That isn't so bad. Things like that weren't as accessible several years ago. If you find other traders with trading styles you like, I would encourage you to stay with them. Then you would have multiple sets of eyes looking for the same type of plays. That is very beneficial.

JG: How did you come up with the name "the stock bandit"?

It is really based on my style of trad-

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ing. The slogan is, “Take the money and run.” That is what I try to do with my trading. I don’t stay in trades for months on end. I am not an investor. I am purely a trader. I trade on a very short time frame. I want to get in, make a profit, and get out. The concept of “bandit” could have negative connotations, but I take it as a light-hearted way to say, “A good bandit is going to plan his strategy, get in, execute their strategy, and then get away with whatever he went to get.” My plan is a matter of reviewing the

charts and finding the trade setups I want. Then I execute the plan and base my entries and exits on the patterns themselves, and then I can get out of the trade either with a profit or loss.

What I am trying to say is that I want to implement the plan the way I have set it up, whether it is a winning trade or a losing one. Knowing those levels ahead of time is crucial. If I have determined where my profit targets are before my trade, if I have determined where my stop-loss is before I enter the trade, then

it is simply a matter of execution. That takes a lot of that emotion out of the trade.

JG/BF: Thank you for your time, Jeff.

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