Secrets of the World's Greatest FX Traders

by SASHA TARKOVSKY

Learn From the World's Best FX Traders

"The person who gets the farthest is generally the one who is willing to do and dare. The sure-thing boat never gets far from shore." –Dale Carnegie

Trading can be learned by anyone – it's a specifically learned skill but there are some traders that stand out as super traders so what makes them different and why do they make so much money?

In this PDF, we will look at 5 traders who are considered some of the best if not the best currency traders of all time and review their history and trading strategies. The traders below all have different styles of trading but while they may have their own exclusive ways of making money, they are in many ways similar and we will look at the traits they share in common later - but now, lets take a look at our super traders and how they trade for huge FX profits.

Jimmy Rogers

Jimmy Rogers is one of the most famous traders in the world and with good reason – he is one of the best - A well known commodity trader, he gained even more fame after working with George Soros at the Quantum fund and also has managed his own fund which has one of the best performance records of all any publicly quoted fund.

History

Jim Rogers started trading the markets in 1968 with just $600.00 and never looked back. In 1973, he met George Soros with whom he started the Quantum Fund which became one of the top performing funds of all time, Jimmy was the analyst for the fund while George Soros did the trades. This partnership saw the fund make gains approaching 4000% while the SP 500 could only manage 50% in the same period.

Rogers created “The Rogers International Commodities Index” and fund which has had the best performance record of any fund, regardless of asst class, over several years, with returns approaching 170 %. Between 1990 to 1992, he travelled through China, as well as around the world, on motorcycle, over 100,000 miles (160,000 km) across six continents and talks about his trip and investments in the book Investment Biker. Between January 1, 1999 and January 5, 2002, Rogers did another Guinness World Record journey through 116 countries, covering 245,000 kilometres with his wife and wrote Adventure Capitalist following this around-the-world trip which remains his best selling book

Investment Philosophy

Patience

Rogers believes that one of the keys to success in investing is waiting for the best trades wherever they maybe and then trading them hard rather, than what most traders do which is - trade more than they should and simply trade for the sake of trading; they end up taking lots of low odds trades and lose.

The Market Doesn't Matter the Potential for Profit Does

Look anywhere for investment opportunities, don't restrict yourself yo just one asset class because if you will be missing opportunities for profit. Jimmy is a big fan of commodities which many traders for example ignore. In addition, Jim has travelled the world searching for the next big market to invest in and his travelling has given him an on the ground insight to many of the best trading opportunities.

Trade Only Markets Which Are Moving

If for example, a market is value and making a bottom it can go sideways for a long time, to avoid investing money and tying it up for long periods wait for signs that the market is changing from bearish to bullish

before getting on board – if you get in to early you might have to wait a long time and see little return on your investment.

Use Fundamentals First Charts as Backup

Jimmy Rogers doesn't trade with Technical Analysis and charts and doesn't believe that they give clues to the future, he only looks at charts to see what has happened in the past, but does not use them to predict the future and in many ways this is sound advise because, the future cannot be predicted at all.

He only invests in assets which have strong fundamental reasons to be trending and looks for value in the market traded.

Invest for the Long Term

Many investors focus on too short a time period and are in a hurry for their investments to perform. In his fund the weightings in his of the commodities traded hardly change over time. This view of focusing on value and riding trends has seen his fund out perform all others.

Sell Greed and Hysteria

This is simply contrary trading and if a market has gone to far from fair value Jim would sell aggressively after studying all the fundamentals and enter and hold and it's a fact that Jim will hold and allow positions to go against him significantly but he will hold on if he is right and let the move blow itself out.

Know When to Get Out

In money management of course you need to know when to get out but Jim has a very aggressive way of trading he is quite prepared to admit he is wrong and if he has misread a situation as he says “the first loss is the best loss” but if he thinks he is right he is quite prepared to sit out a blow off and wait for hysteria to end. Of course, he's normally trading a lot of money and has a lot of positions so he can afford to which many traders can't but it's true that all short term price spikes are of a random nature and always end. His insight into market value and breadth of knowledge allows him to do this, when other traders might be very scared!

Ignore the Majority

This leads on from the points above and its a key trait of all the great traders to be able to stand aside from the crowd and see, things that the majority don't see.

Jimmy Rogers Quotes

“Good investing is really common sense. But it is astonishing how few people have common sense - how many people look at the exact same scenario , the exact same facts and not see what is going to happen. Ninety percent of them focus on the same thing, but the good investor – or trader.. will see something else . The ability to get away from conventional wisdom is not very common”

“I haven't met a rich technician”

"Maybe the trend is your friend for a few minutes in Chicago, but for the most part it is rarely a way to get rich"

“My basic advise is don't lose money”

“Get inside information from the president and you will probably lose half your money. If you get it from the chairman of the board, you will lose all of your money.”

“Index investing outperforms active management year after year.”

Jimmy Rogers Books

1995: Investment Biker: Around the World with Jim Rogers.

2003: Adventure Capitalist: The Ultimate Road Trip.

2004: Hot Commodities: How Anyone Can Invest Profitably in the World's Best Market.

2007: A Bull in China: Investing Profitably in the World's Greatest Market.

2009: A Gift to My Children: A Father's Lessons For Life And Investing.

Bruce Kovner

Bruce Kovner made profits of over $300 million in 1987 alone and compounded a staggering 87% annually, over a 10 year period and is rightly, seen as one of the best traders of all time. Lets take a look at Bruce Kovner's trading strategy in more detail...

"Kovner borrowed $3,000 on his Master Card in early 1977 and quickly made $1,000 on his first two trades but later he ran a Soybean position from just $4,000 up to $45,000 in a six week period but due to a lack of discipline he ended up with a a loss of $23,000. Although he still had $22,000, five times left, the loss of profit is etched on his memory.

“I had a huge gain but lost half before getting out? I lost half the profit in an hour. I closed out the trade and was physically sick for a week. In retrospect that was a very good thing, says Kovner. It helped me understand risk and create structures to control risk."

Many of the great traders took a big loss before implementing, rigid money management parameters and Bruce believes money management is the key to making big gains.

Bruce believes that there are two important elements that have helped him become successful, his trading strategy which looks at the big picture and and his strict money management rules..

Trading Strategy

The first element would be his ability to correctly identify and predict upcoming trend changes and future price movements and he looks at the big picture to achieve this:

He spend tremendous amount of time to follow and analyse intricately the economies of many different countries and integrate this inter-market analysis into his trading strategy.

He gets a gurus report daily to check sentiment and wants to know when a lot of people are going to be wrong.

Uses technical analysis but he needs to understand why the market should move, hence looking at the broader picture.

He has the ability to imagine a world different from today (referred to as alternative scenarios) and really believe it can happen which allows him to trade with courage and conviction.

Characteristics of the Best Trading Opportunities

Bruce is a big fan of breakout trading but as many breakouts are false he uses the following to filter his trading signals.

In terms of breakouts from congestion, Bruce prefers to trade breaks, when most people can't see a reason for the break happening its probably a good one – if most people see a break coming and its heavily featured in the media it will be less likely the breakout will be sustained. To explain this in “Market Wizards” he refers to the Heisenberg principle in physics which says – “if something is closely observed, the odds are it is going to be altered in the process” If a market breaks when know one expects it the odds are therefore far higher than when they do.

Trading Cross Rates for Bigger Profits

While Bruce will trade the major currencies against the Dollar, he believes that cross rates can very often provide the best opportunities and the reason for this is there is simply less speculative interest in these crosses as he puts it in Market Wizards:

“The General Rule is - “The Less Observed, the better the trade”

Money Management

Bruce like all great traders, uses strong money management and trades in a non emotional and disciplined, fashion under the pressure of trading. Here is a summary of the basic money management principles observed.

1. He places stops that indicate the trade is wrong, NOT at a point determined by the maximum dollar loss.

2. In terms of stops there placed “at a point which is to far away or to difficult to reach easily” Many traders are right about market direction but its a fact that most get stopped out to soon and then see the trade go exactly the way they thought after they were stopped out! Bruce is prepared to take a calculated risk and leave his stop behind where other traders may have them but at the same time, he is operating rigid money management. He will trade a SMALLER number of contracts with a wider stop which is the opposite of what most traders do which is to trade as many contracts as possible and trades with tight stops.

3. Monitors the correlation of all his positions, measured by total risk in the market each and every day.

4. Whenever he enters a position, he has a predetermined stop like all good traders.

What Makes a Great Trader?

While he believes that good traders can be trained, he also believes that only a handful would actually make it in trading and this has nothing to do with academic prowess but their attitude of mind. In fact, those who do make great traders are usually the ones that are strong, independent and are able to go against the majority and keep their emotions in check. These traders are the ones who are wiling to go into positions that other traders would not consider and have the discipline to adhere to the rules and thus trade with the right trade position sizes at the right times.

Bruce Kovner Quotes

“ Tight congestions in which a breakout occurs for reasons nobody understands are usually good risk/reward trades”

“There is a great deal of hype attached to technical analysis by some technicians who claim that it predicts the future. Technical analysis tracks the past; it does not predict the future. You have to use your own intelligence to draw conclusions about what past activity of some traders may say about the future activity of other traders”

“ I almost always trade on the market view; I don't trade simply on technical information. I use technical analysis a great deal and its terrific, but I can't hold a position unless I understand why the market should move”

“ I try not to be to much of a wise guy because during major price moves, they (Guru reports) will be right for a portion of it. What I am really looking for is a consensus that the market is not confirming. I like to know that there are a lot of people who are going to wrong”

All quotes above from – Market Wizards - Jack Shwager (Edit)

Summary

Kovner launched Caxton (named after a 15th century English printer Kovner learned about while putting together his rare book collection) in 1983. He has trading screens in both his Park Avenue apartment and his country house, a Georgian-style mansion 75 miles north of New York City and is known to live trading insisting his staff, keep him in touch with market developments 24 hours a day. Bruce's track record stands up there with the best and he is therefore, one of the best traders of all time.

Bill Lipschutz

Bill Lipschutz was the biggest currency trader in the world during the 1980s and in his eight-year career with Salomon Brothers, he generated more than half a billion dollars in profits trading currencies.

Lipschutz helped create the Salomon Brothers FX department which was the most important player in the market when he was there. With an ability to manage risk and call FX markets correctly, he once had 16 positive months in a row. At this time, he turned over half of the currency-option volume on the Philadelphia Stock Exchange and was on many occasions, responsible for up to 80% of the open interest on the market.

Trading Strategy

Bill Lipschutz has had his fair share of losses and like the all the great traders, he's learned from them. One of them involved his personal account, in which he lost $250,000, which he had taken five years to build, in a matter of days, the effect was to tighten up risk control.

Risk Control

Also, he began to adopt better risk control strategies. Which would include not placing the entire trading capital into one single trade, or even into trades which are highly correlated. Also, analyse the risk / reward ratio at the current point in time and NOT at the point when the trade was first taken. All the great traders know how to manage risk and many of the greatest traders have been taught by the pain of taking a big loss. If you want to win at Forex trading, strong money management is the foundation any successful strategy is based on.

The Importance of the Fundamentals

“I don’t trade on dreams or rumors. I’m a fundamental trader. I try to assemble facts and decide what kind of scenario I think will unfold.” Bill Lipschutz, Market Wizards

Its the fundamentals which drive the big trends and Bill had the discipline to follow his basic strategy of placing trades only when the fundamentals are favourable and he will study all the facts to determine a justification for a trade before placing it in the market. This may sound simple but most traders don't have the ability to study the facts and work out there impact on prices.

The Importance of Trend Following

Big trends last a long time and you can see big trends in any currency pair which last for many weeks, months or even years and Lipshutz commented:

"It is well acknowledged that the most profitable market environment for FX [foreign exchange] trading is a trend – in particular a trend that unfolds over a medium-to long-term time horizon,"

Lipschutz identifies big trends and then tries to ride them to their conclusion but of course all traders want to do this but there is a major problem which all currency traders face when trend following and that's deciding exactly when a trend may end and also, staying with it during counter reactions – is the counter reaction a trend change or just a reaction within the trend? If you want to win at FX trading you need to know.

Holding Positive Carry

Another simple idea he uses is the carry trade...

"A key to profiting from a trend is the ability to stay in the trade and not be shaken out during periods of price consolidation or correction,” So what's Lipschutz's solution to this problem we all face?

His solution is to "hold positive carry" so what is it and why does it make trend following easier?

When you make any currency trade, you obviously exchange one currency relative to another and it's more than likely, the two currencies will have different interest rates.

To "hold positive carry," all you have to remember is to exchange a currency with a low interest rate for a currency with a high interest rate and benefit from the interest rate differential.

After Salomon Brothers

Lipschutz left Salomon Brothers in 1990 at the age of just 36 but soon He eventually formed Hathersage

Capital Management which during the the 1998 Asian financial crisis, when panic took hold of the yen market, Lipschutz cleaned up and was up 42 percent for the year year. Over the past 15 years, Hathersage has made an 18.8 percent average annual return and only one in one month period did losses exceed 5%.

Books

You Can read a must read interview will him in the classic New Market Wizards: Conversations with America's Top Traders, by Jack D. Schwager, 1992.

Lipschutz Quotes

" I don't think you can be consistently be a winning trader if your banking ion being right more than 50% of the time. You have to figure out how to make money on being right only 20 30 percent of the time"
" Generally speaking, I don't think good traders make gut or snap decisions – certainly not traders who last very long. For myself, any trade idea must be well thought out and grounded in reason before I take the position"

"When I talk about working hard, I mean commitment and focus; it has nothing to do with how many hours you spend in the office"

"Courage. It's not enough to simply have the insight to see something apart from the rest of the crowd, you also need to have the courage to act on it. It's very difficult to be different from the crowd the majority of the time, which by definition you are doing if your a successful trader"

Summary

This quote probably sums up why Lipschutz is one of the greatest traders the FX world has ever seen.

"It's the intricacies of the game itself that drive me," he says.

"It's about getting up every day and trying to figure out how to beat the market. That's an ongoing fascination that, in its purest form, never changes."

Bill Lipschutz not only is a great trader, he was driven to be one of the best traders and it's obvious he loves the challenge of what he does. His status in the industry was reflected by his induction into the Traders Hall of Fame and he is acknowledged as one of the best FX traders of all time.

Larry Hite

Larry Hite was one of the most successful derivatives traders of his day and during his time with Mint Investment Management Company in the 1980- 90s, he helped to the fund the biggest in the world and made it the very first business in derivatives, to have of in excess $1 billion in assets under management.

Market Wizards

The famous interviews with traders conducted by Jack D. Schwager in Market Wizards included Hite, who discusses how he got started in commodities trading and his trading strategy. Hite believes that successful trading is simply based on calculating and trading the odds and bases his strategy not on getting the highest return - but on getting the best return, in terms of keeping downside volatility to a minimum.

Trading Strategy

Hite, compares trading to playing poker. Profitable investing is really based on betting the odds, and if you can estimate the odds of a specific trade or investment, then you can establish if the price is to high or to low. Similar to poker, favourable odds do not guarantee any individual trade will be successful but as any good poker player knows, if you keep playing the odds with tight money management, you can make a lot of profit.

Larry Hite famously said:

"We approach markets backwards. The first thing we ask is not what can we make, but how much can we lose. We play a defensive game."

His goal was to achieve the best returns while employing tight risk control, Hite stresses three key trading

rules.

First, he advocates never risking more than one percent of total capital on one single trade, no matter how good the trade looks

His second rule is to always follow trends and never deviate from your methods or systems and it's true, if you can't trade a system with discipline, you don't have a system This view is based on trading the odds and how the great poker players make money. Losing money in the short doesn't matter, because if you continue to play the odds correctly, you will win but you must stay on course. You need to have the conviction and courage to cut losses and hold big trends, in the face of open equity dips and at the end of the day - it's the long term profit that counts and what happens in the short term is irrelevant.

Hite's last rule is to diversify across several different areas and he traded in multiple markets across the world, diversifying his portfolio into several different asset classes which were not correlated.

The Mint Fund

"There are two basic rules about winning in trading and life. One, if you don't bet you can't win. Two, if you lose all of your chips you can't bet."

The Mint Guaranteed Fund – a Series A fund – proved to become one of the best publicly traded commodity funds, in terms of performance to draw down. Hite used diversification as a key tool for cutting risk and never over exposed the fund in any one area. The fund achieved an annual return of over 30% before fees over a 13 year period under his guidance and in term of the low downside volatility, this is a truly outstanding performance.

In terms of the Mint Fund Larry made the point that the saying that they lived by was:
"It is incredible how rich you can get by not being perfect"

He makes the point that in trading the Mint Fund, the object was not to find the optimum method but the hardiest system which goes with the overall view of Mint that risk control is the key to making long term gains.

Summary

In 1994, Larry Hite retired as the hands-on fund manager at Mint. Since his retirement, he has held the position of managing director of Hite Capital LLC and in has performance in terms of profits to downside volatility compares with any other trader, making him one of the most important and influential traders of recent times.

George Soros

George Soros is a Hungarian financier who was born in 1930 in the capital city of Budapest and later fled to avoid the Nazi's, after studying at the London School of Economics and then moved to America and has become one of most famous traders of all times..

Soros manages a highly successful fund management company and also runs the Quantum Investment Group. He became a household name when in 1992, when the Bank of England was forced to withdraw sterling from the European Exchange Rate Mechanism and devalue the currency; at the time he was nicknamed the man who broke the Bank of England. George Soros in this time period, traded an around $10 billion worth of the currency and made profits of around $1.1 billion. When the Asian crash occurred, the Malaysian Parliament accused George Soros, of bringing down the country's currency. Of course he isn't always right and has had some huge losses as well and it's estimated he lost $2 billion, when trading Russian markets.

Philosophy of Trading

Some of his most interesting writings are on the belief, that traders sometimes do so on their own biases and therefore, change the market itself. He says that in this way trading can rather than promoting stability in the market, actually destabilize it and the view that a market will stabilize itself on its own, is often not always the case.

George Soros is a short-term trader and has a very aggressive style of trading. He makes massive, highly

leveraged trades and his trading style is based on Global Macro strategy, a philosophy based on making massive, one-way bets on the movement of a financial investment. The bet is a simple one, based around whether the value of the investment traded will either rise or fall.

His strategy is based on reflexivity which rejects the idea that all information is known, to all market participants and thereby discounted in the price. Soros takes the view that market participants themselves, directly influence market fundamentals (as we looked at earlier) and its their irrational behaviour which lead to booms and busts that present him with investment opportunities. Soros sees a world (and markets) governed by passion, bias and errors which reinforce themselves time and time again.

Because human beings are both involved in, and trying to make sense of, this world, they inevitably make mistakes which are based upon their view of reality. Standard economic theory is flawed, Soros says, because it treats markets populated by thinking human beings, as if they operated according to the natural laws that govern atoms and molecules but with emotion present this can never be true. Conventional economics puts forward the theory that the markets are always (eventually) right, Soros insists they are always wrong.

George Soros Quotes

"Once we realize that imperfect understanding is the human condition there is no shame in being wrong, only in failing to correct our mistakes"

"Markets are constantly in a state of uncertainty and flux and money is make by discounting the obvious and betting on the unexpected."

"Stock market bubbles don't grow out of thin air. They have a solid basis in reality, but reality as distorted by a misconception."

"The financial markets generally are unpredictable. So that one has to have different scenarios... The idea that you can actually predict what's going to happen contradicts my way of looking at the market."

"The worse a situation becomes the less it takes to turn it around, the bigger the upside".

Books - The Alchemy of Finance

If you want to know more about the trading techniques and strategies George Soros used to make billions, you should read the above book.

George Soros is unquestionably the most powerful and profitable investor in the world today. Dubbed by Business Week as "The Man Who Moves Markets," Soros once made a billion dollars by betting that the British pound would be devalued. Soros is not merely a man of finance, but a thinker to reckon with as well. In The Alchemy of Finance, this extraordinary man reveals the investment strategies that have made him "a superstar among money managers"(The New York Times)

This book is not an easy read and doesn't give you a specific strategy you can use but it take you into the mind of one of the most successful traders of all time. You get to learn his philosophy of trading and life and for that reason, this book should be read by any serious trader.

Summary

Trading like George Soros is pure aggression and while it can yield huge profits he downside of betting big and winning big is of course, betting big and losing big. Over the course of more than three decades, he has made the right moves on numerous occasions, generating Billions of Dollars in profit and a huge number of fans among traders who hold him in awe on the other hand, a huge number of critics amongst those on the losing end of his trades. The fact is George Soros is one of the most famous and one of the most successful traders of all time and in the business of finance, you are judged on profits alone and few have made better gains than him.

Lessons From True Trading Greats

If you care at all,you'll get some results. If you care enough, you'll get incredible results. - Jim Rohn

The above traders all trade in different ways and there “trading edge” which has seen them make such huge

consistent gains is consistent to them but there are similarities between all of them which we can learn from and here I have ten reasons, they can help you become a better and more profitable trader.

They Have Supreme Confidence in their Trading Edge

All the traders as you would expect have a trading edge they are totally confident in and they expect it to make them money, this allows them to trade with discipline, courage and focus. They also work hard on their edge, not only do they work at their trading, they love what they do.

They have Patience to Wait for the Right Opportunity

Most traders take to many trades and lose, they are more interested in the thrill of trading but the above traders, only trade when they see an opportunity, they are prepared to wait for it to come, rather than trying to force trades for the sake of it.

All have Experienced Heavy Losses and Learned From Them

All the above traders have been hit with heavy losses or wipe-outs and this makes them all, use strong money management as the foundation of their success. Jimmy Rogers may be more aggressive than Larry Hite but they all play great defence first and get out when their wrong.

The Percentage of Losing Trades is Immaterial Profits Per Trade are More Important

When you hear Bill Lipuschtuz saying - you can make money on winning just 20 – 30% of your trades, you know his winners are far bigger than his losers. A huge error traders make when they enter trading, is to think they are going to be right with their trading signals more than their wrong. So when you see that Forex robot for a hundred dollars or so telling you, you can trade with over 90% accuracy you know its wrong! Focus on profit per trade, not the amount of times your right – its cold hard dollars in the bank that count nothing else matters.

They Invest and Focus on the Long Term

All the above traders focus on the long term, they don't scalp or day trade, they hold trades for weeks or months and the reason for this is obvious – the odds favour long term trading. They also are prepared to hold through periods of open equity draw down with discipline and wait for the trade to make money.

You Need to Risk Enough to Make Enough

They all play great defence which we noted earlier - but what you will notice is they are prepared to take enough risk to make a reward. Most traders focus so much on restricting risk they actually create it. You will find that these traders are prepared to risk more and take less trades, rather than taking a lot of trades and risking a little. Most traders can very often get trade direction right but have no understanding of standard deviation of price and get stopped out by having stops in random volatility. Always remember - taking calculated risks is part of currency trading and you have to risk enough, to get a meaningful reward.

Technical and Fundamental Analysis Complement Each Other

All the above traders make it clear technical analysis can predict nothing, sure it can tell you what happened but your trading the odds not certainties. They use the charts to see price history and value and then line this up with sentiment and the fundamentals to generate trades. They don't see fundamanental analysis as opposed to technical analysis, they see them as complimenting each other. Long term fundamentals drive prices long term, sentiment rules in the short term and if you use technicals and supply and demand together, you can work out better where prices are going.

Value and Investor Sentiment and Keys to Taking Trades

This leads on from the next point – these traders see value and sentiment, as the keys to generating trades and it's a fact that sentiment always drives prices to far up or down, away from fair value and the above traders tend to spot and act, on these over shoots before the crowd.

They Stand Alone Against the Crowd

As you would expect these traders don't go with the majority and in most instances there doing the opposite – they focus on their strategy and the fact that everyone does the opposite is a good indication, the trade is right. As the old saying goes “the more uncomfortable a trade is to take, the more profitable it will tend to be”.

They have Courage to do Trades Others Would Not

Leads on from the last point – you have to have courage to make big profits, whether this is entering a trade contrary to the crowd or holding an open position through draw down - it takes courage and nerves of steel to do and these traders do it better than the rest of us!

In Conclusion

The above traders are arguably the best of the best and I have used a lot of their trading wisdom in my own trading strategy and while I will probably never make as much money as them, (Change that to I won't make as much money as them!) the general common sense they teach, has made me a more profitable and better trader and I think if you learn from them, you will become a better trader too.

I wish you all the best in your quest for currency trading success!

Best wishes
Sacha

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