

Chapter 3

THOUGHTS ON MANAGING MONEY

We often hear from students by letter, telephone, and in person at seminars, that they greatly desire to trade managed money.

At the opposite end of the spectrum, we also hear from students who want money managed for them. In either case, the experience can be gut wrenching.

This chapter should serve as a warning and a caution to both. Since your author has at one time or another engaged in managing money for others, I base what I have to say here on my own experiences and, if it please the reader, this may be entitled “Confessions of a Trader.”

The psychological basis for successful trading is indeed a delicate subject. No one we have ever heard of has been able to pinpoint exactly what it is that gives one trader success while another trader fails. Although some claim to have done this, coming up with an attribute profile of the “average” winner, no one we know of has identified a set of common denominators among professional winning traders. Besides, which of us is “average?” Is it you?

Winning in the markets seems to involve a fine balance of traits that differ among winning traders. To make the identification of winning traders even more complicated, there seems to be a distinction between those traders who can successfully trade their own money and those traders who can successfully trade the money of others. I have met both.

Two of the most successful money managers I know personally began by trading managed money. They began trading other people's money for lack of sufficient money of their own with which to trade. Later in their careers, when they did have sufficient money with which to trade their own account, they found that they failed miserably. They were not able to trade their own money with any degree of success. More than that, when they traded their own

money simultaneously with trading managed money, they failed at both.

Upon further investigation, and after speaking with a number of traders who have tried both, I discovered that there are many traders who are successful at trading managed money, but who can't trade their way out of their hat when trying to trade their own money. Invariably, upon further probing, some admitted that they were much more **daring** and **courageous** with other people's money than they were when the money was their own.

Also in this group of those who trade better for others than themselves, I have been able to identify traders who said they were much more **careful** and **conservative** with the money of others than they were with money of their own.

So within this group of traders, all of them students of ours who can successfully trade managed money, some are successful because they are more daring with other people's money, and some are successful because they are more careful with money not their own.

Next, we come to those traders who successfully manage their own money and who have attempted to manage money for others, but failed.

I have heard from quite a few traders who attempted to manage money for others. In this group I include those who have failed miserably. I have spoken with a number of students who have had the experience of losing at least half of the money under their management prior to returning the balance to those who invested with them. Amazingly, the answers are the same as with the group who successfully manage money. Managed money seems to be a "monkey" on their backs. They find that they trade too carefully, too conservatively when the money is not their own. Worse than that, when things go wrong with a trade, they do not act rationally and with the same cool determination as with their own money. When they trade their own account, they do not think of it as money. When they trade someone else's account, all they can think of is that it *is* money. And, because it is not their own, they try their hardest not to lose it.

Unfortunately, experience shows that what they fear the most happens – they do lose the money.

I have spoken with students who successfully manage their own money because they are more careful with their own than with the money of others. They, too, have failed with managed money, and have resigned themselves to trading only their own accounts.

Among the students and acquaintances, I have identified at least four categories of traders who attempt to manage money. I'm sure there are other categories, but these are the ones I've found:

1. Those who successfully manage money for others but cannot manage their own account with any great degree of success because they are too careful with their own money, while they are more daring with the money of others.
2. Those who successfully manage money for others but cannot manage their own account with any great degree of success because they are too daring with their own money, while they are more careful with the money of others.
3. Those who successfully manage their own money but fail with managed money because they are too careful when managing money for others.
4. Those who successfully manage their own money but fail with managed money because they are too daring when managing money for others.

Conclusions:

Among these students I found none who successfully traded both managed accounts and their own accounts. The size of the population for this study was too small to come up with any meaningful statistics, but there are some warnings and cautions that can be concluded.

To those of you who want to have your money managed, be aware that the individual success of any trader trading his/her own money is

no guarantee that that person can successfully manage the money of others. It would seem to bear out the reality of placing managed money with a proven successful trader of managed money.

To those of you who want to manage money for others, be aware that successfully trading your own account is no guarantee that you will be able to successfully trade the account of other persons.

Failure in either of these situations is painful for all concerned! In fact, the pain can be so great as to prematurely end the trading hopes of either party.

Be very careful, because in both of these situations the result can be great personal pain. The pain may be both physical and mental, and can cause you to abort your trading career. I feel it is my duty to caution you about getting involved with managed money, whether you try to manage the money of others, or whether you want someone else to manage yours. The costs can be horrendous.

The responsibility of trading managed money can really wear you down. You may have to go for years without a vacation. You find yourself working late into the night, and working a significant portion of the weekends.

All work and no play is not a good thing for your trading career.

Interestingly, most of my students come to me relating that the reason they want to learn how to trade is so they can become independent and not have to work at a regular job. However, trading managed money is one of the most grueling jobs you can ever undertake.