

The Top 10% - Getting There, Staying There

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Remember the movie, “Butch Cassidy and the Sundance Kid” where Paul Newman kept asking, “Who are those guys?” Had he been a trader, he might have very well asked the same thing about the mysterious group of elite traders known as the Top Ten Percent of the world’s traders. Nobody knows the exact percentage of traders who consistently win, but let's go with 10% for the purpose of this article. Who are they and how did they get there? And how do they consistently manage to stay there?

The vast majority of market participants naively believe that trading is all about finding profitable market opportunities. Although it is necessary to find high probability setups to be consistently profitable, winning traders know there’s a whole lot more to it than that. You don’t get to know the Top 10% if you hang out in the other 90% all day.

So, to join them, we must understand them. We need to learn what they learned and know what they know. The following are what I call the 3 M’s of Trading and they are based on what I’ve learned over many decades of trading and from personally mentoring over 4,000 traders.

The Market – A great deal of consideration must be given, not only to what you are going to trade, but what type of trading suits you the best. You have a lot of choices and they all have distinct advantages and disadvantages. Are you going to trade Options, Equities, Futures, Forex, etc. or possibly a combination? My personal choice of Futures was easy. I eliminated Options because I had no desire to add much greater difficulty by placing a stopwatch to my trades. Plus, I’m a big advocate of simplicity.

With the large capital requirements and one-directional nature of Equities, I had little interest. It was a game that required vast amounts of research using data that you can’t fully trust. The volatile and unstable world we live in makes limited market exposure a very desirable component that stock trading just doesn’t allow.

On the surface, Forex sounds great with its vast liquidity and low margins. But the inherently nasty slippage is legendary and the trading rules really stack the cards against me.

Futures trading offers the most level playing field for the little guy in my opinion and experience. Though not perfect, it offers traders bi-directional trading, strong liquidity, great leverage and relatively low capital requirements. The rules are simple and fair and futures offer the numerous intraday trading opportunities that suit my style of trading.

Each trader must decide their personal approach to trading for themselves and then prepare for one of the toughest challenges they might ever choose to undertake. The journey is long and the road is rough. The work is grueling and the psychological

demands are high. But, if you truly have the passion for trading, getting to the Top 10% can be an experience worth every minute you put into it.

The Method – Most of the traders I meet are, initially and exclusively, in search of a “winning trading system”. Nothing else matters. They purchase one “can’t miss” system after another and become increasingly jaded, frustrated and angry with every losing trade.

It would be a pretty safe bet to say that not one single professional trader who’s consistently in the Top 10% ever bought anyone’s “can’t miss” trading system or indicator(s) and started making money with it. What role then does the Trading System play in the success of the trader?

It certainly plays a big part but it’s not the most important part. More on that later. If you don’t have a solid, reliable and robust system with a clear set of rules that you follow religiously, then you won’t be trading very long. But where does one find such a system? Well, you could build it. If you’re starting from scratch with little to no trading background, plan on spending many years on the project with the odds of success stacked against you. You could purchase a trading system, but a “babe in the woods” trader will get eaten alive by all the system sharks and scam artists that infest the industry.

Ok, assuming you’ve done some homework and have decided on what kind of trading you want to do, get ready to do a lot of due diligence before ever reaching for your wallet. Here’s what I would demand (and what I make my clients demand of me) before making any system purchase:

- **Forget about auto-trading robots** – This is a topic I’ve studied carefully for many years. These do-it-all systems are easily peddled to the naïve trader who has “lost their nerve” and no longer trusts their own trading ability. They fall into three classes: (1) Those that don’t work. This group is about 99% of the ones available. (2) Those that work, but poorly. This is about 0.99% of the ones you see in the back of the trade mags. Over time, they might make a little money, but you’d have to start off fairly wealthy to withstand the brutal drawdowns. (3) The ones that work consistently well over time. Forget this group entirely. If it ever existed, you probably couldn’t afford it. It would cost millions.
- **Know what makes it special** – In order to consistently succeed, you must have an edge that other traders don’t. You have to be able to see profitable opportunities most others do not. You cannot get this edge by using a bunch of “old school” indicators and techniques. If the system is to work reliably, find out the reasons why.
- **Watch it perform in the live market over a reasonable length of time** – I believe this is the most reliable means of evaluating the value of any system or indicator. Be extra cautious if you don’t understand what triggered an entry and

the trader won't tell you. Ask a ton of questions and remain skeptical at all times. Be honest with yourself and ask, "Can I do this?" If you aren't sure, do not touch your wallet.

- **How much training and mentorship will you receive?** – If you can think of a word stronger than essential or crucial, insert it here. You must have access to unlimited mentoring or the system will likely never work for you. Remember, for the system to work for you, as it does for your mentor, you must know what your mentor knows. Unfortunately, most successful traders make lousy instructors. I know from years of experience that mentoring someone to trade successfully is no easy task. One must love doing it, be very good at it, have infinite patience and be willing to give up many evenings and weekends. Finding someone willing to do that is a tall order and lack of proper, dedicated mentorship is a big reason why so many traders fail.
- **Is the system coded?** – If the system were very simple, the system would not work in today's complex markets. If the system can't be coded, then it's too subjective and would take a very long time to master. The "dog work" of measuring, calculating, anticipating, filtering, data crunching and signal id is always done best by computers. Let your computer do what it does best while you focus on the fun stuff. If the system isn't in signal generating software form, walk away.

The Mental Side - More books have been written on Trading Psychology than on actual trading by far. That's because it is the single most important factor in long-term trading success. Top 10% traders are similar to pro athletes who perform at their peak, or musicians who are virtuosos. They can focus their total attention on the task at hand. Conflicts, personal issues or current life stresses do not easily distract them. The more you can remove stress and anxiety in your life, the more easily you can trade effortlessly in a focused, concerted manner.

Traders in the Top 10% know that having a good trading system can allow them to make profit. They also know that their personal psychology is the single most important factor in holding onto it. All traders can win but only the Top 10% know how to keep from giving it all back. Developing the necessary level of discipline, patience, focus and positive attitude takes time. Fear (of losing and of losing out) is the demon that all traders must find a way to conquer in their own way. The secret is not in trying to vanquish fear, but to control it to the point where human emotions do not replace human logic. Rock solid confidence is your greatest weapon but it can't be bought or taught. It must be developed in each and every trader or getting to the Top 10% will forever remain improbable and staying there will remain impossible.