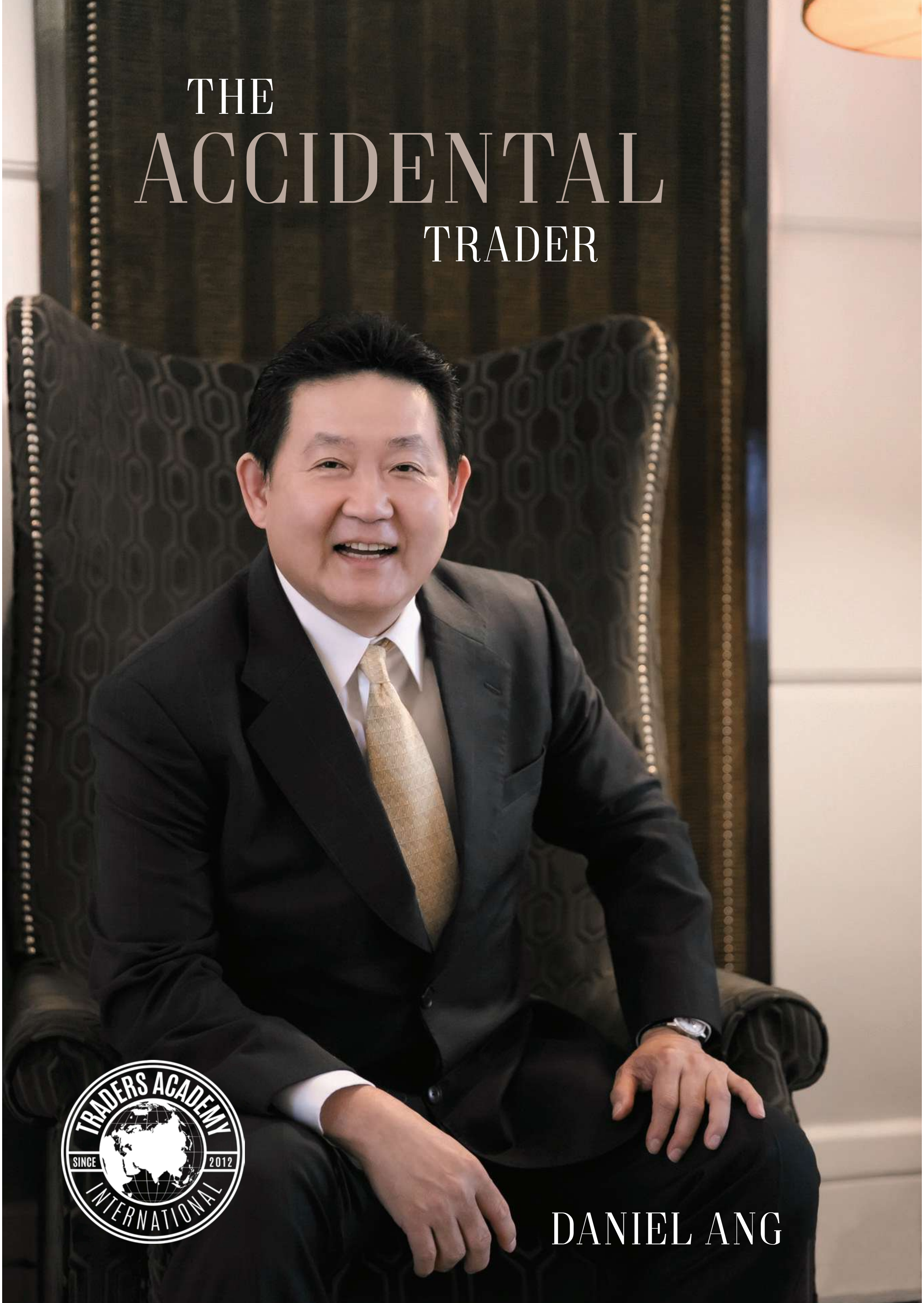
THE ACCIDENTAL TRADER



TRADERS ACADEMY
SINCE 2012
INTERNATIONAL

DANIEL ANG

THE ACCIDENTAL TRADER

ISBN 978-981-14-6782-0

Co-Author	Pearlin Siow
Cover and Typesetting	Sarah and Schooling
Cover Photography	J. Portraits

DISCLAIMER
The contents of this book do not constitute investment advice, and are to be used at the reader's own risk. Although the author and publisher have made every effort to ensure that the information in this book was correct at press time, the author and publisher do not assume and hereby disclaim any liability to any party for any loss, damage, or disruption caused by errors or omissions, whether such errors or omissions result from negligence, accident, or any other cause.

THE ACCIDENTAL TRADER

TRADERS ACADEMY INTERNATIONAL SINCE 2012

DANIEL ANG

I've known Daniel for years and he is one of the greatest training coaches I have ever known. The tools and insights Daniel shares in this book will be instrumental to all traders. If you want to save yourself years of work, make this a required addition to your trading library.

Kathy Lien
Author and CNBC Guest
Founding Partner, BKForex LLC (New York)

The Accidental Trader is a gem of a book! It provides a rare insight into the mind of the experienced and successful trader that Daniel is. This book is a must-have for both newbies as well as experienced traders alike. It will stand out as one of the most inspiring literature on trading in the financial markets for many years to come.

Jin Yau
Writer and Managing Director (South-East Asia)
Tradeview Markets

Daniel is deeply passionate in what he does, and if you were born after the 1980s, this book is for you.

The world has changed dramatically, and this book has nuggets of wisdom from Daniel's decades of trading experience. If you want transformation, this worthwhile read is the very thing you have been waiting for.

Sam Cawthorn
Writer and Speaker
CEO, Speakers' Institute

For years, I have been trading financial markets and in 2014, I came across Daniel and got him to mentor me in the finer art of trading. That was six years ago and today, I am an analyst at the largest retail brokerage in Singapore.

I am deeply grateful to Daniel for deepening my analytical skills. There are not many practicing gurus who actually walk the talk and Daniel is certainly one of them.

Chua Wei Ren
Research Analyst
Phillip Securities Research Pte Ltd

I have known Daniel for almost 30 years since our days with Standard Chartered, and he never ceases to amaze with his evolving transformation. While many of our peers have fallen by the wayside, he continues to chart his own path, all the while remaining true to his vision. I have no doubt that this book will be an inspiration to aspiring and seasoned traders alike.

Wilson Tan
Managing Director
R. J. O'Brien Hong Kong

Dedication

This book is dedicated to my wife Amie, and my two princesses Jasmine and Clarisse. It is said that the true test of a relationship is in times of crisis—and indeed, my wife has been my bedrock throughout my career, especially during my darkest moments following the global financial crisis in 2009.

A trader's life is not for everybody. But this is a path I have chosen, and I am forever grateful to my wife for her unwavering belief in me. Her infectious optimism and never-say-die attitude were what got me to break new ground, and to continue honing my craft.

To the millennials and Gen-Z, I hope to be an inspiration and a beacon for a path less travelled.

CONTENTS

INTRODUCTION

Why I'm Writing This Book

> The secret to being successful from a trading perspective is to have an indefatigable and an undying and unquenchable thirst for information and knowledge.
>
> Paul Tudor Jones

If I could describe trading in two words, they would be *underrated* and *misunderstood*.

Truth be told, the best-kept secret in the industry is that just about anyone can become a trader. Forget about the five-figure investment capital and the three-piece designer suit—I started with $5,000 borrowed from my mother!

If you've come to believe that you can only prosper from trading when economic conditions are strong, you've also been misled. It's obvious that you can make money when the market is doing well. What's not so obvious is that the market can be most rewarding when it's facing adverse conditions. When you have mastered the skill of trading, you will be able to prosper under *all* market conditions—and that is a skill I hope to pass on, especially to the millennials and Generation Z.

Trading in a Nutshell

A trader owns nothing and produces nothing. A trader's mandate is to simply take advantage of market conditions. To achieve that, there are endless tales of sure-win strategies, but the truth is professional traders rarely reveal their strategies. The commonly known adage, 'buy low, sell high' barely touches the surface. To consistently win trades using the buy-low-sell-high strategy is about as rare as purchasing multi-million-dollar winning lottery tickets. When it comes to trading, you can also buy high and sell even higher... or sell short, taking advantage of falling markets.

There has been movies made about almost every profession that have resulted in complaints from industry veterans on how "Hollywood got it wrong!" Doctors, lawyers, soldiers and even journalists have all seen this happen, and traders, while having fewer movies made about them, are no different. Hollywood storytellers have the privilege of bending the rules.

The truth is that trading is *not* what you may have seen in the movies, and if you haven't seen trading in the movies, there's a good reason why: It's much less exciting in real life. A story about trading doesn't make for a very exciting or dramatic plot.

There is no hero or villain; it's simply you against the market, alone. Every single day. There are no colleagues to vent to at the coffee machine.

Discipline Required

If there is a second most important factor behind a trader's success (after good practice), it's the discipline to maintain an almost boring and repetitive routine, day in and out. For me, my alarm clock jolts me out of bed at 6 am each morning—that's when the financial market in New York *closes*. This early start gives me enough time to check the charts and financial pages from different sources. What separates the good traders from the great ones is the ability to sift out the noise and develop a balanced view. I find balance by reading alternative, and often contradicting, views and I don't limit myself to Bloomberg or CNBC. After all, traditional media by its very nature is biased.

When I'm reading these views, I'm looking to find what other traders are looking at, and why. My favourite questions are:

- Why is this happening?
- What other reasons could there be?
- Is there any value I can gain from it?

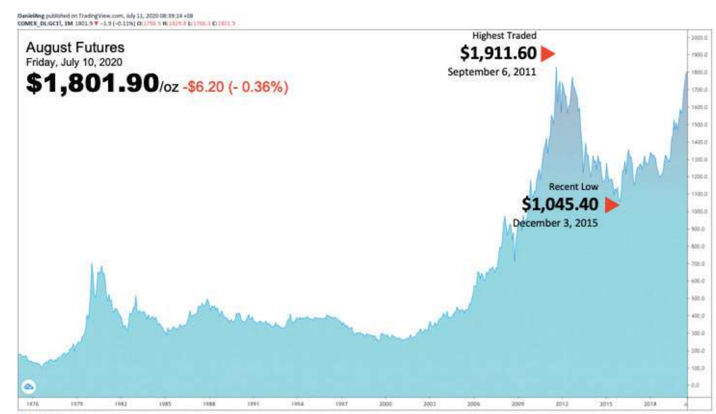
For example, when the COVID-19 outbreak hit, the media was feeding us news and updates on why gold has been rising. While it is true that gold has risen some $247/oz, a 16.3% since the beginning of 2020, this move actually started four years ago—when President Donald Trump took office and shortly afterwards launched a trade war with China.

As gold continues its ascent, analysts and gold promoters have started harping on why gold is heading for the stratosphere—focusing on the selloff of equity markets between February and March 2020. To keep the fuel burning after the stock markets started to recover, a new narrative was touted, this time focusing on the horrific economic numbers reported by countries whose economies had been wrecked by the lockdowns. Indeed, infections, and mortality rates soared in the West, but something was not quite right.

Most of the countries in the East that were hit by the virus reported relatively low mortality rates. But the numbers coming from the West, especially the United States, were disproportionately high. One would think that with their first-class healthcare system, they should have a better grip on treating their patients.

In short, the number of deaths attributed to COVID-19 is rather perplexing. One needs to ask if there is something else driving the reports. Are the numbers even reliable?

COMEX GOLD FUTURES
Continuous Active Front Month Contract



Over the years, I have found that when the majority is overwhelmingly on one side of a market, markets flipped. It is common sense. Imagine having everyone on one side of the boat. The boat invariably becomes unstable and will capsize. I am not saying that the current gold market is not sustainable. In the longer-term outlook, gold is bullish but in so long as the $1800/oz is not convincingly taken out, the medium-term outlook remains suspect to me.

I am more concerned about the narratives propagated by the media and goldbugs. The current bullishness in gold is, in my opinion, not based on the spread of the coronavirus and cities having to reimpose movement restrictions on so called second waves. Factors like the continued economic and geopolitical tensions building up between the world's two largest economies unsettle markets. Adding to the mix is the fact that 2020 is a US Presidential election year. Polls showing the incumbent trailing behind his democratic opponent added to the overall uncertainties. The result is Dollar weakness. Gold rises because it is a vote against the US Dollar.

The Pros and Cons of a Trading Life

I wasn't always on my own. I spent more than 30 years in the industry, working in major brokerages. For most of my working life, my days were practically upside down; we traded during the active New York hours (also known as Eastern Standard Time, or EST, in the United States), which is exactly 12 hours behind Singapore. That meant we worked the graveyard shift, from 6 pm to 6 am.

These lopsided days meant that we had almost no social life. When we're working the whole world is sleeping, and when we want to socialise, everybody is working. That makes it difficult to maintain relationships—support and understanding are not easy to come by. Many traders will attest that their relationships with loved ones struggle, to the point that many relationships do not last. If your spouse or loved ones are also in a profession that involves odd hours, they are more likely to have a smoother ride.

But there are benefits. Working odd hours allows us to beat the crowds, because we have the flexibility to go and watch a movie when the theatre is

90 percent empty. There aren't any queues for tickets or popcorn, and in a crowded island-state like Singapore, this is a big perk. What I enjoy most though, is being the master of my own time, and not having a rush hour to contend with every morning.

Three Decades and Still in Love

There's no denying the motivator is (of course) the money. Addiction also plays a part. The adrenaline from putting up a trade that goes your way, or seeing the market move in the way you anticipated, is quite exhilarating. Having said that, once you reach a certain level, money becomes secondary. In fact, the most dangerous time of a trader's journey is when they're making money.

"How is that possible?" I hear you say. Well, it's common during periods of success to throw caution to the wind. In this euphoric state of mind, traders are often tempted to take on a market feeling invincible, but they soon realise, often the hard way, that they're not. The market has a way of slapping you in the face and reminding you who the real master is. I learnt this painful lesson during the global financial crisis in 2008–2009, where I lost almost all my capital.

At the end of the day, always remember money is just what the job can do for you. Accumulating a lot of money doesn't mean that you're rich; it means you're better off. Having money simply affords more options in our lives. But, as with everything in life there must be a balance—it can't be all about money. For me, I enjoy the lifestyle that trading allows me to have, the freedom it gives me and the mental stimulations it creates.

The biggest lessons I've learned from over 30 years in the business, though, is that trading and marriage are very alike. The passion, the time and attention, the ability to own up to mistakes and the emotional balance must be there.

Like any marriage, trading won't go your way every day. Despite putting in your best effort and analysis, things don't always go according to plan. It happens so much more often than we think it will. That's why I believe your trading plan and risk management strategies require as much time and attention as your marriage does. Knowing when to walk away from a bad decision is also important. When the probability of success of a trade is 50/50, it's not worth taking the chance.

You must also have the temperament to handle the unexpected, and admit when you're wrong. Most marriage counsellors tell us that admitting your mistakes is the key to a long-lasting marriage, and trading is no different. If you're wrong, you're wrong—put your ego aside and accept it. This attitude will salvage your marriage, in the same way it will preserve your trading account.

At the same time, if you're too emotionally stressed over a losing position, or even too euphoric over a winning one, it will give you an extreme state of mind that won't allow you to focus on what's important.

But it will take time and experience to develop and embrace this mindset. When I was in my twenties, I too was like most young and over-enthusiastic traders—I experienced an emotional rollercoaster that had me celebrating huge earnings one week, catching up on sleep the next and then trying to make up for losses the week after. The cycle would repeat itself, but at the end of the rainbow, there's often a pot of gold... provided you stay the course and develop the prudence and wisdom needed.

Today, I don't trade every day. I only trade when I see something worth doing. The idea of gluing myself to the computer day in and day out is not how I want to live. I don't have to tell you how unhealthy that is! By the time this book goes into publication, I'll be 60 years old.

Why I'm Writing this Book

I firmly believe that trading shouldn't be locked up behind a wall of qualifications, or in the offices of banks and financial institutions. It's a skill that everyone can and should have. But, of course, trading is not for everyone and if your heart's not in it, I don't blame you. If this introduction doesn't get you excited, you shouldn't pursue trading!

I encourage all my students to go out and experience as many different career paths as possible. It doesn't matter whether it works out or not—before you're 30, if you have the dynamism and energy, there's nothing wrong with trying everything. That said, if you're already in your late 30s and still unhappy in your career, perhaps it is wise to stop experimenting. By the process of elimination, you should know by now what it is you're meant to pursue.

The reason I believe trading is a skill that everyone should have is that it offers an unmatched level of flexibility and freedom. You don't have to pay anyone, and you can survive on your own based on your knowledge.

A lack of capital should not act as a deterrent either. You don't need to start off with much; you can get started with whatever you can afford. In fact, many brokerages make it easy to start off by providing any aspiring trader with a practice account stocked with 'Monopoly money' so you can test any trading strategy before going 'live'. As you get to know yourself and learn which strategies work and which don't, you'll get a grasp of how the market performs under different conditions and find out what works best for you. If you can double your practice account consecutively using virtual money, then you are ready to enter the battlefield under real market conditions.

The whole idea of this process is to get to know yourself. Once you are ready, open a small account and replicate the trading strategy used in the practice account—this time with real money at stake. If you start small, you will be progressively able to build up confidence to take on more sizeable accounts.

This is no different from our formal education journey. With each passing grade, our ability will only get better and better—as will the rewards.

Who This Book is For

This book is written to be accessible to anyone, but I have millennials and Generation Z particularly in mind, because these are the generations who are living and working in a rapidly changing world. It's changing so fast that the way my parents made money is very different from the way I do. That means my children will make money very differently from my generation. We've taken a quantum leap towards better connectivity and technological innovation, and many experts have predicted that 85 percent of the jobs that will exist in the decades ahead haven't even been invented yet. The economic fallout from the Covid-19 only served to press home the urgency.

The future is a fast-moving treadmill that many people born after the 1980s won't be able to get off. Those who mastered a soft skill like trading, on the other hand, will be able to step off the treadmill and lead a life they want to live.

And that is what I want for my nieces, nephews, children and anyone reading this book to have—a life you want to live. I believe, trading gives you the ability to pursue whatever it is you want to pursue in life because at the end of the day, you will still have money as a backup. The holy grail is to have money above and beyond what we think is enough to sustain ourselves.

That's my objective. While work helps us sustain our lifestyles and afford what we need and want, in the end we are not here to work. We are here to have a meaningful life, and to enjoy life means financial freedom, independence, options and passions. I want my readers to have the financial freedom to afford whatever they feel like buying.

A rigid 9-to-5 job with a fixed income doesn't allow for that. The inconvenient truth is this kind of dependency on someone else's for our livelihood also opens the floodgates to being retrenched, a grave concern given today's pace of technology. Covid-19 has certainly been a wake-up call.

Put simply, I don't want my readers' lives to depend on somebody else. I also don't want them to fall in love with trading just because I did. I want them to be able to pursue their passions, no matter what they are. If your passion is plants, grow plants. If you're like my daughter who loves to dance, dance. But gardening or dancing are unlikely to be economically viable except for a select few, so you'll need to find another way to sustain that lifestyle.

Alternative sources of income like trading allow you to make money to support your passion. That means financial freedom—the life I want for you.

By the Wall Street Bull in New York, March 2015.

PART ONE

MY TRADING LIFE

CHAPTER ONE

Accidents Can Be a Good Thing

> Sometimes on the way to your dream, you get lost and find a better one.
>
> Lisa Hammond

Everyone’s journey through life is different. What works for one may not work for another, and I hope recounting mine helps you understand the lessons that life taught me, and it can be applied to your own experiences. Here’s the path I took, and what I learnt along the way.

When I started out, I honestly knew nothing about trading and financial markets, not to mention commodities trading. Becoming a trader certainly wasn’t something that I had planned for, but sometimes life has a funny way of knowing what’s best.

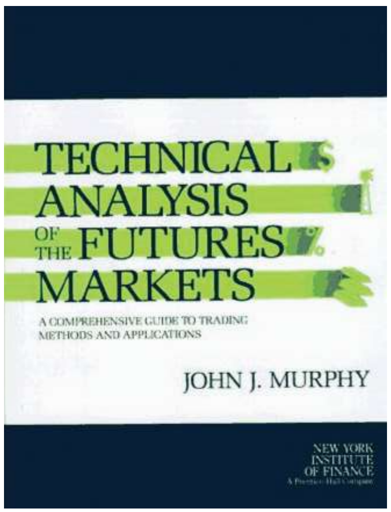
My journey started when I was waiting for my ‘A’-Level results. You see, I was sort of a late bloomer. At 18, after finishing secondary school (that is, high school in other countries), every able-bodied male Singaporean is drafted into compulsory national service. For me, it was the army for two and a half years.

During my school days, I was a highly decorated boy scout (I received the Chief Commissioner’s Award) and I loved the outdoors. Only a few weeks into basic military training (BMT), and without my parents’ consent, I signed on to be a professional soldier (a ‘regular’ in Singapore parlance) for four years.

When my service contract ended, I decided I wanted to continue my education—and promptly sat for the GCE ‘A’-Level examinations at age 25. While waiting for my results, a classmate of mine called to ask if I was free to accompany him for a job interview.

Since I had nothing else to do, I agreed to go along with him. Curiously, he told me to wear a dress shirt and a tie. Up to that point, I didn’t even own a tie, nor had I even been to the Central Business District! While filling out his application form, he asked me to apply as well, just for the fun of it. I honestly didn't know what job we were applying for, but I went along as I figured I had nothing to lose.

As it turns out, I was selected, but my classmate wasn't. (That may have been because he was due to be enlisted for national service, while I had completed mine.) So there I was, 25 years old with a brokering job that expected me to recruit customers to trade in the Japanese commodity futures market. I knew nothing about commodities, and nothing about futures. Remember that was 1985. In the absence of formal training (and the Internet), I had to depend on books to teach myself.



I remember the first book I read was *Technical Analysis of the Futures Markets* by John Murphy. It was the thickest and most technical book I had ever read, but it allowed me to master all the different indicators used in technical analysis, such as momentum indicators, trend-following techniques and more. I had three weeks of basic in-house training, which gave me a rudimentary education of how the futures market functioned, and how to read price

charts and 'predict' forward price movement. After that, I was expected to go out and find customers!

The process of trading was vastly different back then; you would probably call it a turtle race compared to what it's like today. That's good news for you because there are so many more opportunities in today's volatile markets. In my time, trades were done over the phone, and you had to manually draw charts and call the brokers to place orders. It wasn't until I was 27 years old that I had the opportunity to trade on the world's first fully electronic futures exchange—the New Zealand Futures and Options Exchange in Auckland.

Trading Will Give You a 360-degree Makeover

I'm using the full-circle metaphor deliberately, because it's not simply a turnaround or a new way of doing things. Trading forces you out of your comfort zone, changes you in ways impossible to predict, and makes you acquire or use skills you never knew you had. Rather than just equip you with skills and knowledge, it changes you entirely. (Don't say I didn't warn you!) Therein lies my first learning point—don't give up on trading just because it forces you out of your comfort zone. Not only did I not know anything about trading, but I also wasn't the kind of person who was gifted with the skills to go out and communicate with people easily. I was always the kid that blushed whenever anyone came near me at school. The thought of me talking to a total stranger, let alone asking them to give me Power of Attorney over their accounts, and to trade on their behalf, was not something I ever imagined myself doing.

You'll also have to deal with rejection a lot. That dreaded feeling is inevitable, and you will need to learn how to overcome it, quickly. I remember going door to door knocking on offices, collecting name cards and endless cold calling—which often resulted in rejections. But the adage is true: "If something does not kill you, it will make you stronger." That's how it affected me.

Rejections either stop you or force you to be creative. After endless rejections, I was determined to find a better way, and I soon mastered several techniques to get access to the boss or owner of the business. My favourite was waiting until after 6 pm when the receptionists had gone home so I could approach the bosses when their offices were unguarded. After all, business owners worth their salt are usually the last to knock off!

It worked, and my confidence soared. I realised I can be rather persuasive at times, and so I quietly challenged myself to see if I could convince prospects whom I had just met to agree not only to open an account, but also to hand over a cheque. I soon realised there was a part of me that I never knew existed, and when push comes to shove, you'll find this can happen to you too.

Early Lessons

A common fear among traders, at least in the beginning, is a fear of losing money. It's yet another learning experience we must all go through. Truth be told, my first supporter gave me a $5,000 cheque to open an account… and I blew it all in one week.

It was even more depressing than usual, because that first client was my mother! Worse still, I didn't come from a well-to-do family, so $5,000 wasn't easy to come by in those days. At first, I wanted to quit as I felt I had betrayed her trust, but in the end, it just made me more determined to hone my skills and make good the losses.

I also wish I had discovered earlier that the best customers are the least likely ones—you can't rely on your immediate circle of friends and family, and you should always have your one-minute 'elevator pitch' prepared. I realised this after moving to Auckland, New Zealand to help my boss set up an office.

My first two customers came about when they came to the office and asked me the 'magic' question: "What business are you in?" The first was the owner of an electronics shop who came to oversee installation of office equipment my company had purchased. He was so interested in what I said that he opened an account with me that very day!

The second one was a *dim sum* restaurant owner. I missed Asian food and would go to a Chinese restaurant near my office at least three times a week

to avoid the usual Western diet of sandwiches. When the Hong Kong boss of the restaurant asked me the same question, he too ended up opening an account. He even tried to matchmake me with one of his staff!

A futures contract is a contract between two parties where both parties agree to buy and sell a particular asset of specific quantity and at a predetermined price, at a specified date in future.

Up to that point, I was trading commodity futures. A futures contract is basically a forward contract. Think of it this way—if you are a farmer, before you go out planting rice, you'll want to know that you can make money out of your labour.

The risk for you as a farmer is that at any time between the day you plant and the day you harvest, the price of rice could move up or down. Obviously, if it goes up you are in a good position, but if it comes down that means you would have negated all your labour and time. To solve this problem, the only thing you can do is to find a way to hedge the price risk.

You need a willing rice merchant to commit to a contract that says at the point you harvest you can sell everything to him at a predetermined price. That guarantees you, the farmer, a profit. If the merchant agrees, this is the basis of a futures contract. By locking in the price now, the farmer has essentially transferred the price risk to the rice merchant. The contract also benefits the rice merchant as he can secure the supply. It is a win-win proposition for both parties.

Unlike the private agreement between the farmer and the rice merchant, a futures contract is listed in an organised exchange very much like the stocks of a public company.

The aim of a futures contract is to allow transparent price discovery. It provides a mechanism that allows the proper transfer of risks between willing buyers and sellers. But the concept can also apply to synthetic products that people want to buy and sell, including interest rates, stock indices, crude oil, cryptocurrencies or even carbon emission allowances.

In the Beginning It Will Be Difficult

Honestly, the initial part of my trading experience was as challenging as learning any new skill. For a long time, the whole trading world felt very alien to me. It was only when I mastered the skill that I realised its true potential.

If you are new to trading, the central idea is that there's a price discovery mechanism, otherwise known as demand and supply. That means you can see what people are buying, what they want to buy and how much of it—and the prices they want to buy at. At the same time, you can see the sellers put out their offers at different price levels, and then you can see the size. This is commonly called the price ladder, or what traders call Level 2 trading. It is through these competitive biddings and offerings that prices are discovered.

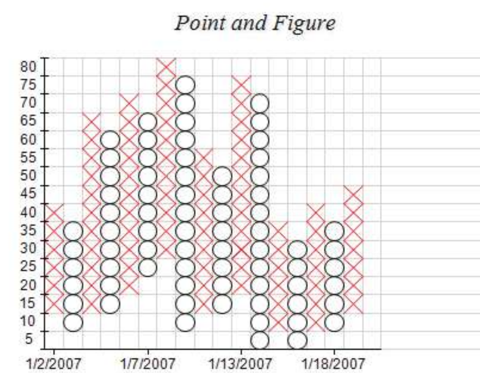
However, the Japanese commodity market on which I was trading in the mid-1980s didn't operate as transparently. On hindsight, their price discovery process was rather opaque. They used a 'sessional' market; meaning everyone had to submit their bids and offers ahead of time. Sometimes, this could be an hour ahead before a non-negotiable price was 'fixed' by the exchange in Tokyo, Kobe or Osaka, depending on the commodity you trade. No competitive bids and offers were shown.

This contrasted with the American way of trading, in which competitive bids and offers showed up in a 'ticker-tape' system—displayed with both transacted price and volume. The Japanese system was akin to me showing my hands to other traders, and the powers-that-be deciding which side of the market they wished to push.

To me, that felt rigged. So, when I had the opportunity to experience the more transparent means of trading electronically, I decided to switch because it allowed me to see the price movement on my trading monitor. That's when I started trading the Barclay Stock Index futures and New Zealand's five-year government bonds futures. However, the New Zealand market suffered from an acute lack of liquidity. At that time, the market was rather small, with very little international participation.

Eventually, I switched to trading the Hang Seng Index Futures, listed on the Hong Kong Futures Exchange (HKFE)—one of the most liquid and popular futures contracts at that time.

Unlike the trading of the 'sessional' Japanese markets, trading a 'running' market such as the Hang Seng Index futures (modelled after the US exchanges) required a different approach. Without the benefit of a computer driven trading software during that time, every price movement had to be plotted on a draftsman's graph chart and monitored manually. I used the only method I knew that could track live running markets then, the Point & Figure (P&F) method. This method is simple as it only records price in blocks of value, based on the point value the trader assigns to each block without any consideration for time. Time is of no consequence, and all that matters is price.



In short, it is a 'breakout' system which is still relevant in today's markets. The trader tracks the market as it gyrates, and buy signals are generated when a block of highs is exceeded. Similarly, a sell signal is generated when price breaks below a block of lows. However, a major negative of such a system is that the trader always ends up selling low and buying high. This of course, goes against the common mantra of buying low, selling high.

When the market is directionless, the result can be horrendous as the trader's account gets 'chopped up'. That said, the good thing about this system (if one does not attempt to second-guess the system) is when the market eventually moves persistently in one direction, the trader will be riding with the market.

A Market Collapse Kickstarted My Trading Career

Then came 19 October 1987, better known as Black Monday. Technically, it should have been called Black Friday in my opinion as the move started before the weekend. That fateful week, global stock markets crashed like dominos, and it was the first time in my career that I witnessed first-hand what a global financial market contagion looked like.


"All the News That's Fit to Print"

The New York Times

Late Edition

NEW YORK, TUESDAY, OCTOBER 20, 1987

30 CENTS

STOCKS PLUNGE 508 POINTS, A DROP OF 22.6%; 604 MILLION VOLUME NEARLY DOUBLES RECORD

U.S. Ships Shell Iran Installation In Gulf Reprisal

Offshore Target Termed a Base for Gunboats

A Huge Blow to the Five-Year Bull Market

Dow's Record Fall

WORLDWIDE IMPACT

Frenzied Trading Raises Fears of Recession — Tape 2 Hours Late

Does 1987 Equal 1929?

It all started in Hong Kong. Days before the Hong Kong stock market collapsed, it was already showing signs of weakness, and because I had religiously followed the sell signals generated from the P&F, I was holding onto two lots of the active front-month Hang Seng Index (HSI) futures.

By midday on Friday, 16 October 1987, the HSI futures hit the day's circuit breaker in what is known as a Limit Down move. This means the market

cannot go down any lower, based on a predetermined percentage of the previous trading day's settlement price. (A Limit Up move is the opposite.)

The Hong Kong market remained in Limit Down for the rest of the day. In a bid to calm nerves, the Hong Kong Exchange inexplicably announced a week's closure of the exchange. As a result, Asian stock markets were spooked. When the London stock market opened that afternoon, there was no bid—and it opened at Limit Down and stayed Limit Down for the rest of the day. This caused a domino effect around the European markets, which lasted till the New York opening. The US markets also followed, having opened and closed at Limit Down price.

For the next five trading days, global stock markets opened in Limit Down moves. All this while, the Hong Kong market remained closed.

Remember, I was holding onto two lots of the HSI futures, so when the Hong Kong market resumed trading a week later, all artificial price limits were removed and the HSI promptly plunged some 70 percent. I was one of the lucky few who made money out of the stock market crash that year—six figures in one week to be exact. If the HSI had gone Limit Up instead, I would not be writing this book today.

That was my first pot of gold! I was in seventh heaven, and I was only 27 years old. That was the moment I realised this is not just a job. It changed my life forever, and I was fired up. I wanted to be a professional trader, and with this knowledge, I quit my job and returned to Singapore.

CHAPTER TWO

Banking It

> Entrepreneurship isn't just a label, it's a lifestyle.
>
> Richard Branson

Upon returning to Singapore, I sat for an examination conducted by the Institute of Banking and Finance (IBF), to qualify for a broking/trading license. I passed it on my first attempt. Armed with the certificate, I needed a member of the Singapore International Monetary Exchange (SIMEX, later renamed the Singapore Exchange Derivatives Trading, or SGX-DT) to sponsor my license. So that's exactly what I did, and I have never looked back.
After getting my license, I started working as a gold dealer with one of the oldest family-owned gold dealers in Singapore, which was also a founding member of SIMEX. My job as a dealer was to provide constant two-way quotes to clients/brokers who called into the dealing room to buy or sell spot gold contracts. In our jargon, it was called Loco London Gold. (*Loco* is Latin for 'for delivery'.)

For every 100 troy ounces of gold contract traded, the product had to be delivered to a designated warehouse in London. This was like a futures contract, but instead of being traded in an organised exchange, it was traded Over the Counter (OTC). But for all intents and purposes, it worked like a futures contract. The only difference was that it had no expiration date; instead, it was a perpetual contract with a daily rollover at 5 pm New York time.

As a gold dealer, I had a bird's-eye view of the gold market. I could 'see' all the clients' orders as well as their open positions, and I could get a sense of the order flow. In those days, the gold market was rather sedate, with a daily trading range of less than $2 per ounce. Prices never meaningfully exceeded the $330–350 range then, and it was relatively easy to profit from gold trading. One simply sold gold and collected interests (swaps) daily, an approach that worked because gold was trading within a narrow band.

The theory behind this is simple. When one sells gold in the spot market, one is deemed to have 'lent' gold to the buyer. Although nothing physical has been exchanged, the theory of a seller lending gold to the buyer means that the buyer must pay interest for the lending facilities. These interests, or what we called swaps, are paid daily so long as the buyer continues to hold on to his position. This is also called the costs of carry.

Where does the dealer come in? Remember, the dealer (and by extension the brokerage which I worked for) is the one essentially 'making' the market to both buyers and sellers; it's the buyer to every seller, and the seller to every buyer, among its clients. In an organised futures exchange, the clearing house performs this role.

The business model is simple. By making a market to all clients, the brokerage is providing constant liquidity by being a buyer to the seller and a seller to the buyer and keeping the spread as income, on top of taking a cut of the interests paid or earned from both parties, and charging them commissions. Thus, the spread between the bid and ask price is very much like what the banks and money changers charge their clients.

At the end of the trading day, the house will have an aggregate long or short position. It can then decide if it wants to keep the netted-out position, or to close them out with another member firm. It's a very neat business model if you ask me.

Then came Saddam Hussein's invasion of Kuwait in 1989. I remember those days vividly as the gold market went ballistic. Without warning, gold price 'gapped' up as all offers were lifted; meaning there were suddenly no offers to sell gold at any price. The market went parabolic, some $20+ per ounce from the last known price. This was unprecedented—at least to a rookie dealer like me. Remember, gold usually traded within a narrow range of around $3 per ounce per day before this event.

Just like Black Monday of 1987, pandemonium broke out. Tempers flared as clients and brokers alike called incessantly asking for answers. Our telephone switchboard blared non-stop, and we were no wiser as to what had hit us. It was only minutes later that headline news on our Telerate and Reuters quote machines started flashing news of the invasion.

Within a span of just two short years, I witnessed two extreme examples of a 'vertical' market—but more were to come. On 15 January 2015, the Swiss franc went vertical when the Swiss National Bank suddenly ended its policy of pegging its currency to the Euro.

And then there was the vertical market in Bitcoin. Cryptocurrencies like Bitcoin were not (and still are not) treated as mainstream financial products. Between mid-September to December 2017, Bitcoin rose from around $3,000 to almost $20,000 within a span of just three months. That caught the attention of speculators. Such extreme moves have become increasingly common, as markets these days are driven by algorithmic trading programmes that move in unison, like a school of fishes. The most recent example is between 24 February and 23 March 2020, when the Dow Jones Industrial Average fell some 10,800 points.

Moving into Foreign Exchange

I joined Standard Chartered Futures, the brokerage arm of Standard Chartered Bank, in 1992 and experienced for the first time the working of the foreign exchange (FX) market. In those days, retail participation was largely restricted to high-net worth clients of the bank and the standard lot size then was 100,000 units of the base currency. For example, for the USD/JPY pair, the base currency is the US dollar and the quoted currency is the Japanese Yen. One standard lot of USD/JPY simply means how much Japanese Yen is needed to exchange for US$1.

On the other hand, the British Pound and Euro are typically base currencies, as in GBP/USD or GBP/JPY. This simply means for every unit of £100,000, we track how many US Dollars or Japanese Yen are required to exchange for £1. (The base currency is always constant at 1.) What we see as movement in FX is the quoted currency price moving up and down.

When I progressed from trading futures to spot gold, there was a change in my work routine. Futures were traded between the exchange's opening and closing hours and that meant the working hours were long, and we had to operate in three shifts. In an Over the Counter (OTC) market such as Loco

London Gold, we traded round the clock non-stop from 5 am to 5 pm the next day, from Monday to Saturday morning.

Foreign exchange (FX) markets are also OTC, and because the busiest trading hours coincide with the opening and closing of the US futures market, I found myself gravitating towards the 'graveyard' shift. That meant I would typically be in the office after dinner, and work till the US futures markets closed at 3.30 am the next day. During the day I was also servicing my clients and looking for new ones.

The attrition rate was high for retail clients. Herein lies the reality of trading—most retail traders do not fare very well in this endeavour. In the final analysis the reasons are varied, but they are rather similar, revolving around time management, family needs and relationships. The truth is the size of one's trading capital has no bearing on success.

Back in the 1980s and 1990s, Standard Chartered only had three futures brokerages worldwide. The main office in London catered to institutions, while the Hong Kong office offered Hang Seng Futures—the only product offering then. The Singapore office resembled the London office as it offered a variety of products to the retail investors. Besides FX, we offered global futures products from Japan, South Korea, Hong Kong futures exchanges and SIMEX to customers in Asia. Of course, these included futures and options products on US exchanges.

Product lines included financials such as stock indices, treasury bonds, interest rates and currency futures, as well as agricultural and soft commodities like pork bellies and orange juice futures. There was also the precious, base and ferrous metals complex, including energy products like crude oil, natural gas and the like. I traded practically all these products until I left in 2000, and this exposure to a wide range of products would stand me in good stead when I went solo as an independent trader post-2006.

During my time at Standard Chartered the brokerage business model in Singapore was hyper competitive and brutal. It got so bad that by the 1990s, no US broker was left. The entire business model degenerated into a discount brokerage, but operating at full service. Besides the acute commission

compression, the rapid advances in technology continued to play a big part in the shrinking of the pie. I left Standard Chartered at the start of 2000 to join Keppel, which was at that time the smallest bank in Singapore. With the belief that I had gone as far as I could with Standard Chartered, I entertained the idea of being the biggest fish in the smallest pond.

This meant starting from scratch as I always did when I switched firms. This did not scare me as I always managed to scale greater heights when I focused on the immediate task at hand. But of course, things were different in 2000—by then I had started a family, with a daughter and a baby to raise.

Unfortunately, my time with Keppel was rather short-lived, as it was bought over during the banking consolidation during the late 1900s and early 2000s. Tat Lee Bank merged with UOB, which later took over OUB. DBS merged with POSB, and OCBC took over Keppel.

However, short as it was, my time at Keppel was my best in monetary terms. When I joined Keppel, the agreement was I had to bring in my own clients and service them on my own; very much like a remisier. And for that, I got to keep 30 percent of the commission as well as the spread earned. The caveat was, I could only earn this if I was physically present in the office to service my clients. That meant I practically ate, slept and worked in my office, from Monday morning to Saturday morning! It was brutal, but the monetary rewards were very satisfying. By the time I left Keppel at the end of 2000, my monthly pay-check was constantly in the six-figure bracket; enough to put a down payment for a property every month!

After Keppel, I joined FIMAT Asia, the brokerage arm of the French bank Société Générale. I was in my early forties then and the culture there was very different; it was more institutional-centric. It was at that time that I started to dabble in structured products like managed funds, and I took on the role of an independent distributor for some of the London-listed Man Investment Products and Austria-based Quadriga Super Funds.

But, at the end of 2006, I felt it was time to move on and I gave up my license to become a full-fledged independent trader.

Get Rich, But Not Quick

Let me say this upfront—a trading life isn't for everyone. It takes time, passion and patience to become a consistently profitable trader. But if you are successful, it's the best business to be in.

My time at Standard Chartered exposed to me how the corporate world in this business worked. What I quickly realised was that because it was less heavily regulated back then, being a commission-based broker was a very viable option. But as the noughties drew near, increasingly stringent compliance started to suffocate the business.

You would also think with a decent pay-check your social life would be buzzing, but if that's the reason why you want to become a trader, think again. Traders, especially the obsessed and fanatical ones, have practically no social life.

This line of work entails working long, unearthly hours, which make it almost impossible to socialise. It's also why I got married late—I had no time to date. Truth be told, I once thought I was destined to jinx any marriage; every time I was asked to be a best man, the marriage ended in divorce. This was especially true for colleagues of mine!

If you are working in a brokerage you are even less free, but you do have the advantage of a basic income. Many traders prefer the predictability and stability of working for a bank, especially with an almost guaranteed year-end bonus. If, on the other hand, you decide to be like me and trade on your own, your income is far less predictable.

It also depends on your nature. Some people like the stability of a full-time job and if that's you, there's nothing wrong with getting a job as a trader in a bank. For me, freedom is priceless. I was happy to work for commissions because I enjoyed being able to do what I wanted, when I wanted. I was even enticed by my boss to market to institutions in Taiwan, promoting the Morgan Stanley Taiwan Index futures—but after a year of travelling two or three times a month, I wanted out. I do not enjoy reporting to anyone, and I much prefer the freedom of working on my own terms.

Don't Use Your Trading Account for Daily Expenses

The notion that a trader's life is glamorous and the path to a rich and fulfilling life is also a myth. Many believe that they can afford all the trappings of a successful life, like what they see in movies, but remember, not every trader can reach the fictitious Gordon Gekko's heights in *Wall Street* (1987), or Eddie Murphy's in *Trading Places* (1983). The worst thing you can do as a trader is to use your trading account to pay for daily expenses.

Most importantly, you cannot use your trading account like an ATM. I have two set of accounts: one for capital growth (medium to long-term positions) and the other for income (short-term or scalping). The reason for this is, trading is inherently stressful, and if you are constantly worrying about how to pay your bills from the income derived from trading, you cannot function at peak performance. The added stress is not good for your mental health.

Trading is like a business and must be treated as such. Obviously, you will need to have some capital to get started, but you *must* also take a long-term approach and have some kind of secondary income to support yourself. If you are not in this position, then you might want to consider working for a fixed income to help you accumulate enough capital to get started.

Side Income

The global financial crisis of 2008 and 2009 was both a curse and a blessing. During that time, I started getting offers to conduct workshops on FX trading, as well as speak at events on global market outlooks. Even to this very day, there is still a constant demand for my services.

In 2018, I was contracted to write a daily newsletter for a Malaysia brokerage, and in 2019 the Chicago Mercantile Exchange (CME) Group appointed me as their external speaker for the Asia Pacific region. So I am blessed as the income from these assignments helps covers my monthly outlays such as mortgage payments, my children's education, my daily expenses and holidays. With my bases covered, my mind is clear and that allows me to focus on my trading.

I typically draw down my trading accounts once or twice a year, or I can choose to let them grow and compound. Suppose I want to buy a big-ticket item like a renovation or my children's tertiary education—I know how much I need to put aside and I work the numbers backwards. Then I'll try to make that money from the market by working out the percentage returns I need to earn each month over a set period. Of course, not everything will go according to plan all the time, but I still achieve my targets most of the time.

CHAPTER THREE

Crash and Burn

> Every cloud has a silver lining.
>
> John Milton

Most traders dread financial crises. Not me. Over the years, I have experienced numerous financial market crisis in my career—and each has been very profitable, except for one.

There is no big secret to my longevity in this business. Honestly, you just need to make sure you are on the right side of the market. This may seem simple and obvious but believe me, in the fog of trading, most will stumble. Regardless of the cause, be it the Gulf War or the US-led oil embargo on Iran, or even Covid-19, every crisis brings unique opportunities.

The other trick is to diversify, and not to be fixated on one asset class or market. Human beings are creatures of habit, and we get comfortable doing the same thing day in and day out. For example, it is not uncommon for someone who trades stocks to only trade equities and nothing else.

They may think they are specialising—but by doing so, they may miss the forest for the trees. One truth I learned early in my career was the fact that all markets are connected. For example, when the US Federal Reserve lowers interest rates, risky assets like stocks markets generally rally, and risk-off assets like bonds and precious metals fall (not always the case these days). Likewise, the US Dollar may rise or fall when interest rates lower, depending on whether the market deems such a move as a one-off event or a change in long-term monetary policy.

Traders however must be flexible and knowledgeable enough to switch asset classes whenever the circumstances change. There is money to be made across all asset classes, be they currencies, bonds, precious metals or commodities.

To be truly successful, a trader also needs to maintain a global perspective. The ability to see the interconnections and opportunities is what separates the good from the great. If you can do that, you can put your money where it will give you the biggest bang for your buck.

Weekends Are for Finding Flaws

Many people believe traders can only make money when the market is open. Obviously, one can only execute trades when the market is open but in today's 24/5 marketplace, markets are practically open 24 hours a day every day. (We are not even talking about cryptocurrencies. These are open 24/7.)

But there are times when the market is not active. All exchange traded products like equities, futures/options and exchange traded funds (ETFs) have regular and fixed opening and closing hours, and just because a market is closed, it does not mean a trader's work is over. A trader must continue to analyse the markets and prepare trading plans for the coming week. They must also analyse all trades for the preceding week and follow through on trading plans.

For example, if a trade resulted in a loss, was the loss a result of abandoning the earlier plan, or was it from a pre-planned trade? The difference between the two may seem immaterial to most, but to a professional trader, understanding what transpired is in itself an education. It helps the trader understand their own strengths and weaknesses.

Weekends are meant for reflection and planning. The road to achieving consistency is a long and arduous one, and not many will reach their destination.

Every Trader Has Low Points

In the years I was with FIMAT Asia, I lost my motivation and fell into complacency. To be honest, I didn't enjoy the French corporate culture, and as a result I stopped actively bringing in new customers. After a while, I completely lost my drive. I ended up living off my income from my Keppel

days, spending my days in 'retirement mode'. My baby was young, and I spent a lot of time playing with her by the pool. While I certainly do not regret that time with my family, it was also the time when the 2008–2009 global financial crisis hit. It was an even bigger crash than Black Monday of 1987, and I lost practically everything.

For many months after busting my trading accounts, I did not know what hit me. I just could not accept the fact that although I saw the move coming, I had ended up on the wrong side of the market. I got complacent and the market slapped me hard—reminding me who the master really is!

In the months that followed, I withdrew into my shell and although I did not seek medical help, I knew I was in severe depression. Worse still, I took to the bottle to numb everything out. It was also at this point that my marriage came under tremendous stress. 2009 would go down as the darkest (and brightest) moment of my life.

For a while, I did not want to deal with my losses. I buried my head in the sand. But the pull of the market was irresistible, and slowly, I pulled myself together and attempted to reconstruct those trades that had led to my downfall. It was painful, but try as I might I could not find fault with my original analysis. I had made what seemed like the right decisions with the information I had, only to be proven very wrong.

Then one day, I had a lightbulb moment. One of the things I do to de-stress is to iron clothes—for some unexplainable reason, ironing has a calming effect on me.

One day while ironing, my mind drifted and something in my mind went *click*. I quickly went back to my charts, and lo and behold, I realised where I had gone wrong. I had been trading too close to the market! It reminded me of the ancient Greek myth I had read of Icarus flying too close to the sun in spite of his father's warning. I had committed a trader's greatest sin—trying to catch every twist and turn as the market gyrated. Greed had gotten the better of me, and I guess my arrogance didn't help either.

That was my turning point as a trader, and I gained a new respect for the market. Gingerly at first, I stepped back into the trading arena. And bit by bit, my confidence returned. Throughout this episode, my wife was a rock and I continued to trade, but with a new purpose in life. I knew I had a new calling.

A Quintessential Life Skill

While trading may not be for everybody; I believe passionately that everyone should be equipped with this quintessential life skill. I have two daughters, one aged 30 and the mother of an adorable two-year-old boy, and another still in polytechnic. I constantly worry about their ability to survive in this increasingly disruptive world.

Do they have the necessary skills to stay relevant? Money is always going to be key in a metropolis like Singapore, where the cost of living is one of the highest (if not the highest) in the world. How are they going to stay financially free to pursue their life goals?

Try as I might, I could not get any of my children, nephews and nieces interested in what I do for a living. Millennials and the Gen-Zs are blissfully unaware of what lies in store in the decades ahead. I know for a fact that the future will not be pretty. But I reckon I have some time left to do what I need to do—and that's why I decided to grow my platform and build a bigger stage to spread my message. This book is one way of reaching out.

These days, it is not uncommon to hear talk of making money work harder for us so we don't have to. Social media is full of advertisements selling the alluring freedom of trading for a living—but in reality, it is not so simple. It is commonly accepted that for every 100 wannabe traders, only one survives long enough to reach the summit of success. The odds of success are daunting, and I would rather be honest enough to tell the truth up front.

My Future Predictions

I entered the workforce in the mid-1980s, a period where globalisation was a buzzword and it is undeniable that we are all better off because of this specialisation of production on a global scale. Fast forward to the turn of the

century, and there is now a concerted pushback from those countries and segments of the population whose income has stagnated.

While multilateralism has brought about unprecedented wealth to many emerging economies over the last 40 years, what we are seeing right now is a global pushback from the West, led by the US. Movements like Occupy Wall Street in 2011, and the civil unrest in Hong Kong, are reflections of this shift. President Donald Trump's 'Make America Great Again' campaign slogan also promotes unilateralism, and has led to a dismantling of the global order.

The underlying thrust is that the fruits of globalisation have not filtered down to all segments of the economy. The have and have-not gulf has been widening for some time, and it is all coming to a head in many societies.

This is a global movement, with student protests in the UK in 2010, and large-scale uprisings in Greece during the financial meltdown in 2010–2011. It's happening everywhere. We now have a very insecure US and a fast-emerging superpower in China and of course, 2019 was marked by a trade war between these two economic superpowers. This friction is bound to continue having an adverse impact on financial markets. Covid-19 further heightens an escalation in bilateral relationships between the world's two largest economies. When two elephants fight, there is bound to be collateral damage.

Going forward, it is unclear whether this geopolitical tension will lead to a shooting war but at any rate, we are likely to see a major reset—one that will reshuffle the old rules governing relationships between nations and trades, very much like we saw in the aftermath of World War II. This means there are going to be major dislocations ... which also means huge opportunities ahead.

This is the reason why my message is more urgent than ever. We have probably no more than a decade to prepare for this paradigm shift.

Cash Will No Longer Be King

As I write this in 2020, the year has begun with the outbreak of a new coronavirus in China, which has spread worldwide. Aside from the human toll, global supply chains have been severely disrupted. As a result, stock markets around the world tumbled between February and March. Concurrently, gold has surged and disagreement among OPEC members has seen energy complex prices collapse. Added to this chaos is the scary reality of sovereign debt. As nations and corporations became addicted to a decade of ultra-easy monetary policy, debts at all levels have piled up to dangerously unsustainable levels.

To resuscitate economies as the damages of the lockdowns and economic standstill become obvious, countries have rolled out massive stimulus packages in a desperate bid to arrest the collapse in economic activities. Mountains of debt are growing ever higher, and it won't take a lot to bring the house of cards down.

This explains why global interest rates are at record lows. Any increase in interest rates will raise the costs of financing deficit spending, and will blow the top off sovereign debts. The world's financial system is on life support right now, and no amount of quantitative easing (QE) can save the day. It has only postponed the inevitable, and someday the chickens will come home to roost.

The Bank of Japan (BOJ) experimented with QE beginning in 2001. To date, this policy has failed to lift the Japanese economy in any meaningful way. In 2016, it stunned the world by adopting *negative* interest rates, but that too did not work. Some in Japan call this period the Lost Decades.

Now the European Central Bank (ECB) is adopting the same failed policies. Albert Einstein once famously said: "Insanity is doing the same thing over and over again and expecting a different result." Policy makers have either gone mad, or they have the unenviable task of doing the impossible. Either way, we and our children must be prepared for the massive dislocation in the years ahead.

What we are witnessing is a train wreck in slow motion, quickened by the advent of Covid-19. In all my years, I have never seen such a simultaneous standstill in economic activities. The world has gone through many financial crises—but nothing on this scale.

To get an idea of how desperate policy makers are, just look at countries that have introduced negative interest rates. Negative rates punished savers and pensioners. In a bid to force consumption, central banks in Japan and the EU launched them anyway, but this goes against everything we think we know about economics. The idea is perversely illogical from a purely academic viewpoint, and is based on the false assumption that savers would rather spend than save as negative interest rates killed the incentives of savings. But human beings react differently.

The saying, "Every action has an equal and opposite reaction" is so true in this case. I do not know about you, but faced with the prospect of job insecurity and lower income and now being penalised for keeping my money in the bank, I am not about to go out on a spending spree. I would tighten my belt and choose to keep my cash at home!

Because of negative rates, many have emptied their saving accounts, and now banks have had their deposit base decimated. Without the cheap source of funding, bank loans have dried up. With so many businesses going belly-up and loan portfolios are at risk after months of lockdown, banks have become a systemic risk.

Other casualties of negative interest rates are the pension funds and insurance companies. Pension funds have a very narrow investment mandate, as they can only invest in 'very safe' instruments like government bonds and the like. With interest rates as low as they are, income from government bonds has become so compressed that most pension funds are struggling to maintain benefit payouts. This means they are increasingly forced to invest in risker assets. When the stock markets tanked in February/March earlier in the year, trillions of dollars vanished.

In Japan, Japanese Government Bonds (JGB) pay next to nothing. As a result, pension funds are increasing their allocations to equities. This cannot be good, because of the economic carnages brought about by Covid-19, we are faced with another worldwide financial contagion of epic proportions. If you think Covid-19 is bad, wait till the Mother of Crises hits. I am talking about the biggest elephant in the room—sovereign debts.

Then there is a global movement to eliminate the use of cash. Currency as a form of money has always evolved, and the birth of distributed ledgers (promulgated by blockchain technology) is leading the charge into the digital realm. In Sweden, cash has largely been eliminated. China has launched a digital Yuan, and there are talks of Japan launching a digital version of the Japanese Yen just before the 2020 summer Olympic Games—which have since been postponed to 2021.

Where negative interest rate has failed, governments worldwide are increasingly eliminating the use of cash to plug the tax holes in their parallel economy—the so-called black market. In November 2016, India eliminated large denominations on short notice, and this did not go down well. This is because a large swath of the Indian economy is largely cash-based. It caused nationwide hardship as farmers could not buy seeds and fertiliser. As a result, food prices surged.

There was a time when cash was king, but these days, cash is seen as a conduit for supposedly illegal activities. After the September 11 terror attacks in New York, the war on cash intensified, explicitly to prevent money laundering and the ability to finance terrorism.

In every economy, there is an underground economy that largely transacts in cash, because of the difficulty of tracking these transactions. By extension, this will materially impact tax collection. With sovereign debts at record levels, it is no wonder that the hunt for taxes has intensified and is getting increasingly desperate.

At the end of the day, policy makers do not want a freewheeling currency system that they cannot control. The birth and promise of cryptocurrencies like Bitcoin has been touted as an alternative to fiat currencies. With blockchain, and by extension a national digital currency, every single dollar can be traced—where, when, with whom and how it is spent is captured in the ledger.

It may be a pipe dream, but if it happens the taxman benefits greatly. As digital currencies grow in popularity (with or without the consent of users), true privacy will no longer exist.

Finding the Truth

Wherever possible, traders should widen the search for the truth. To be an effective trader, it is essential to read from alternative sources as news and analysis from traditional media tend to be one-sided. Indeed, forecasting is one of the most difficult things to do as a trader but the ability to find market direction, predict price targets and time tops and bottoms is what separates good traders from great traders.

One of the most authoritative sources, for me, is Martin Armstrong. I have fervently followed him for years, and attended many of his bi-annual World Economic Conferences (WECs). He maintains a free-to-access blog at https://www.armstrongeconomics.com/blog, in which he pens his thoughts and answers readers' questions.

His views are original and refreshing, so much so that no traditional media in the West will publish his ideas and thoughts. Despite this, his market calls have been uncannily spot-on over the decades—sometimes, market reversals happened on the very day and at the level his machine learning system predicted, months and years ahead of time!

Armstrong is also a self-taught programmer and coder, learning the principles of machine learning long before it became mainstream. His machine learning system, which he called Socrates, projects cycles from enormous historical data. Besides monitoring and analysing financial markets across thousands of Markets worldwide on a real-time basis, it can also predict climate change and social patterns, among many others. For instance, Socrates correctly predicted that an outsider would win the 2016 US presidential election. As a property tycoon and businessman with ties to both major political parties, yet not a career politician, Donald Trump fit the bill of an outsider perfectly.

Socrates has predicted that the 2020 US presidential election is going to be one of the bloodiest, and it may very well be the case! We can already see how this is panning out. The street protests and subsequent lootings sparked by the death of George Floyd in late May has since morphed into a movement called Black Lives Matter, and it has spread beyond the shores of the US. We are also seeing major media companies like Fox News and CNN taking sides, as did the major newspapers in the US. Social media companies are not spared. Facebook and Twitter are also tangled in this vortex in what must be one of the most polarised elections in memory. This has massive implications for financial markets.

One of Armstrong's most-quoted sayings is: "The majority must be wrong for the few to be right." In other words, the majority is almost always wrong. This is why the current highly hyped bull market in gold can be precarious.

For instance, when equities markets were in panic selling mode in March 2020, Socrates called for a bottom on 23 March. Lo and behold, that was indeed the low and the market rebounded sharply. When mainstream analysts were calling for the demise of the US Dollar, Socrates called for Dollar strength in the years ahead. In his words, the US will be the last to fall. Why? Because his capital flow model shows that capital will flee Europe and into the US and specifically into US equities.

The Dow at 40,000 and beyond is what Socrates predicted. But unlike the sharp recovery we witnessed since the March 23 low, the continuation of the 2009 bull market is likely to resume only in 2023. Socrates also predicted a likelihood that the March 23 low is likely to be revisited again, at least in the DJIA.

The coming Sovereign Debt Crisis is expected to be the mother of all crises. For years, Armstrong has warned about the coming global pension funds crisis. He claims it's not a matter of *if*, but *when* pension funds fail, and the day of reckoning is fast approaching. This will result in uprising and social unrest and now that the UK is out of the European Union, we could also see a possible breakup of the EU. Armstrong believes at some point, some states in the US may even break away. Such is the forward-looking model that he processed that allows traders and investors alike to foretell what the future may hold and to position themselves accordingly. This is as close to a crystal ball if ever there is one.

Policy makers are truly stuck between a rock and a hard place. The Singapore government has called the economic devastations because of Covid-19, the worst the country has experienced since Independence. It has become an existential challenge. Everyone should take heed and be prepared. Inaction is no longer an option.

With Martin Armstrong at WEC 2019 in Orlando, Florida, October 2019.

Where Will the Money Be Going Forward?

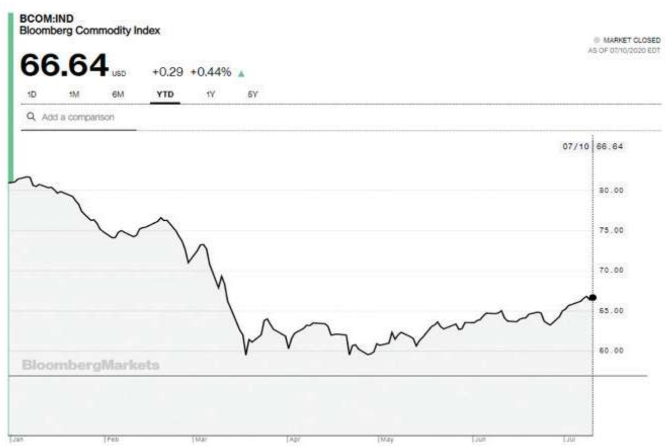
Part of knowing where to put our money to work is knowing where money is flowing to. This is called capital flow. When we are aware of world issues, then we can position our capital accordingly.

Consider the fight to mitigate climate change. All the talk of saving the Earth and going carbon neutral has dominated headlines in recent times. The Swedish teenager Greta Thunberg is the poster child of climate change.

How will this movement affect the flow of investment, given the fact extreme weather conditions are a fact? How do you, as a trader, position yourself?

You should be thinking about how and what people will spend their money on. We know that major retail chains in the US have folded, and the major US companies have filed for bankruptcy. Hertz, Pizza Hut, Wendy's and J. C. Penney are just the tip of the iceberg. On the other hand, companies that have e-commerce platforms are doing very well during this period. This should give retail investors a sense of which sectors of the economy have been negatively impacted by the lockdowns, and which are prospering. From this viewpoint, Covid-19 is just an excuse to pursue certain policy objectives.

BLOOMBERG COMMODITY INDEX
Year to Date



I believe commodities are the next bright sector in the coming years. Long before Covid-19 and the attendant supply chain disruption, extreme weather conditions have caused crop failure and threatened food production. As the Earth turns cooler and sunspots have practically vanished, coupled with the rapid shifting of the Polar North away from Canada towards Russia, weather patterns will become more erratic—and with that, global food production will be severely affected due to droughts and adverse weather patterns which will increase in intensity. Jim Rogers, the world-renowned investor, often stated that future millionaires will be farmers, and I concur.

On the one hand, the world population is exploding. It took human history until around 1800 for the world's population to reach 1 billion—but the second billion was achieved in only 130 years (1930). The third was reached in only 30 years (1960), the fourth in half that time (1974). Only 13 years later in 1987, there were 5 billion people. It is estimated there are currently some 7.8 billion people on Earth, and by 2050, it is estimated that Earth's population will hit 9.7 billion.

Coupled with this sobering statistic is the fact that rapid urbanisation has increased the size of the middle-income group. China is a glaring example. Since joining the WTO in 2001, along with rapid economic growth, China's middle class has exploded. According to a study by consulting firm McKinsey & Company, just 4 percent of the urban population in China was considered middle class. The same report notes that by 2022, 76 percent of China's urban population will be middle-class. China reportedly had an urban population of 730 million people in 2015 and if this figure doesn't change, by 2022 over 550 million people in China will be considered middle class.

That would make China's middle class alone big enough to be the third-most populous country in the world! With rising income, not only will demand for food increase, but its quality as well. This means more protein consumption. And we are not even considering India, which has as many people, and a similar urban population trajectory. This growth will inadvertently place tremendous pressure on food supplies—they will be squeezed between rising demand and more severe and disruptive climate change.

When we piece this information together, a distinct pattern emerges. There will be global food shortages, so forget about investing in condominiums. The money will be in commodities.

If you only trade stocks, then reposition your portfolio to include more companies that are part of the supply chain, be it food production or transportation. This kind of stocks will be valuable in the years to come. With Covid-19, we have also seen medical stocks surging. With aging populations, people will inevitably fall sick, so medical stocks are another good option—explore pharmacies, pharmaceutical companies, or other healthcare firms.

What about gold? Gold has always been linked to inflationary outlook, and seen as a store of value. Since the 2009 global financial crisis, inflation has not reared its ugly head. When the US Federal Reserve launched quantitative easings in the years following the crisis, analysts of every shade were talking about how inflationary it would be. That did not happen. When the Fed cut interest rates to near zero, analysts said it would cause inflation. That did not happen either.

Yet between 2016 to 2019, gold rose from a low of $1,046 per ounce to this year's high of $1,765 in May 2020. So clearly, inflation is not a factor in the recent gold rally. What we are likely to witness in the post Covid-19 years is deflation or stagflation.

What caused gold to rise during this period? It was no doubt the US-China trade war, and while both sides had a trade deal in January 2020, gold continued its climb from $1,520 per ounce at the beginning of the year to $1,765, an appreciation of some 16 percent to date. The latest driver is the escalating geopolitical tensions between the two economic juggernauts.

COMEX GOLD FUTURES
Continuous Active Front Month Contract

Over the longer term, gold is expected to rise, but the current rally is unlikely to extend much further. Based on cycle analysis, a bearish reversal is anticipated—and a re-visit of the 2015 low of $1,046 remains a possibility.

As you can see, great traders constantly need to know what is over the horizon, so they can reposition in sync with the mega trends. This is true, be it the changing nature of the economy, climate change, shifts in geopolitics, technology, and even world-changing events like war and disease outbreak.

Many traders and investors have talked a lot about diversification. To me, investors diversify because we have long been told diversification mitigates risk. They have no clue what they are talking about!

Take the example of a typical retail investor. He may be invested in the stock market, but never look elsewhere. While there is nothing wrong with being equities-centric, what bothers me is that the average investor only invests in the same stocks or sector all his life. To me, this is illogical. I believe a smarter way is to occasionally rebalance your portfolio by rotation among the different sectors. This is because different drivers move markets differently, and they do change. The same applies to other asset classes.

I always tell my students and audiences alike to always stay nimble, and never to be 'married' to their favourite investments. For example, whenever the Fed cuts rate, all financial instruments will be impacted, some more than others. Currencies will move, some inversely and some directly. Likewise, debt instruments like US treasuries (in all maturities), are also extremely sensitive to changes in monetary policy. Of course, stock markets will also react, as would risk-off assets like gold. All assets react differently to any set of drivers.

To use a rather poor-taste analogy, trading is akin to dating. One must constantly change, and switch products. This is because at the individual level, our resources will always be finite. Every investment dollar we risk must give us the biggest bang possible.

It is for this reason that I track and monitor a wide range of financial derivatives. My focus has always been on FX, but when there is a sizable move in equities, I will actively switch to trading stock indices or gold, or even cryptocurrencies. It all depends on the cycle each market is in. Remember, you're 'married' to trading, not any specific product! There is no need to be fixated.

It is commonly acknowledged that markets tend to trend persistently in one direction for about 30 percent of the time. The bulk of the time, markets are just noises, and gyrate directionlessy in consolidation. If I can see that a market is in a non-trending mode, I typically avoid trading that market. This is because trending markets are very directional—they tend to move in one direction persistently, and that is where I need to put my money to work.

It is for this reason that markets are the most productive in terms of generating returns in the shortest possible time. We call such trending markets motive waves. They are explosive, and they persist. Non-trending markets tie up capital that could otherwise be employed elsewhere.

Smart traders pick their fights selectively.

CHAPTER FOUR

Going Solo

> Walk your own path and be yourself.
>
> Joanna Nussbaum

The journey to becoming a trader is a peculiar one that goes against all human instincts. There is no financial security in the form of a stable income, and you simply do not know when or where your next pay-check will come from. This can make it extremely uncomfortable and stressful. Especially if you have huge financial obligations, like mortgage or your children's education to contend with.

The other reality is that the longer you delay getting a full-time job, the more unemployable you become. So if you want to go against the grain like me, the most important thing is to have the full support of your family. Before deciding on this path, you really need to have a serious conversation with your family, because their finances and security are intractably linked to yours.

Fortunately for me, I had always been very independent from young. I came from a large family, with eight other siblings—all of us are only one or two years apart. At 18, I moved out of my parents' home when I enlisted in the army, and up to the time I got married at 36, I lived alone. It helped that my parents, particularly my late mother, were incredibly supportive. God bless her soul!

But it was marriage and parenthood that anchored me. I become a family man, and when I decided to go solo as a full-time trader, I was in my mid-forties—with a daughter in secondary school and another of school-going age. On top of this, I also had a huge mortgage and a car loan to service, and my wife was a full-time housewife. That meant I was the sole breadwinner.

The responsibility of carrying an entire family's finances on one's back can be overwhelming at times. This path is not for everybody! That said, for those with the knowledge, temperament, resolve and staying power, being a trader can be exhilarating. It frees you from the daily grind of the working class. No more joining the rush hour, work related stress or office politics... and above all, no longer the constraints of a fixed income.

The Difference Between Failure and Success

I will be honest—many a time, the difference between failure and success is a result of being in the right place at the right time, doing the right thing... and luck. The reason it is this way is because formal education only prepares us for the workplace. We are trained to be employees, not how to make money.

Long before it became a buzzword, my wife encouraged me to conduct financial literacy workshops. Perhaps that's part of the reason why I'm writing this book, in the hope that others will be able to enjoy the same success I have. My dream is to one day set up a traders' club, where like-minded individuals can congregate and exchange trading ideas and views. I believe there is a need for this because trading can be a very lonely enterprise, and many tend to develop tunnel vision. Having the stimulus of an active community can therefore broaden our views across a multitude of markets.

Besides myself, I could invite professional traders to conduct trading workshops and clinics as I know some really good traders in this business. I could also invite overseas hedge fund managers to share their views over live-streaming sessions, as well as organisations to conduct financial literacy classes for children, especially teenagers. The sooner they get started, the better. My goal is to see more people having options in life, because life is too short to have to count pennies every time you want to buy something. You might think that promoting trading (some say speculation) is an irresponsible way to conduct one's life. I get it. Trading is not for everybody, but it has been the key to my success.

When I got married and had children, the responsibility was magnified ten-fold. When I was single, it was much easier—but with a family, the game changed dramatically.

With Kathy Lien and Boris Schlossberg of BK Forex LLC in New York City, March 2015.

Other success factors for me include maintaining a routine, consistency, deviating from the status quo and always having a purpose in life.

A Typical Day

There are countless books about the benefits of maintaining a routine and consistency, and how these contribute to success. It is true that successful people do have certain habits and routines. They have habits that allow them to stay focused on the tasks at hand. Maintaining a daily routine certainly had a huge impact on my trading career.

Without fail, my typical day begins at 6 am. The first thing I do, even before I brush my teeth, is to briefly check the market. Once I am assured nothing