TPFG

MercenaryTrader
A COMMUNITY OF RUTHLESS PROFITEERS

TPFG Module 05:
The Ocean's Eleven Principle

TRADING PSYCHOLOGY FIELD GUIDE
Module 05: The Ocean's Eleven Principle

In the previous module you learned about the ultimate trading method. You learned why it is robot-proof, rust-proof, and banker-proof.

You learned why the JL method has endured for more than a century… and why it is likely to endure a century more (if not longer).

You also learned about the seven hallmarks of the JL method. Those are very important. But there is one principle – one key thing – that stands above all…

Jesse Livermore made ample use of this principle. As did the vast majority of successful traders and businessmen you have ever heard of.

And once again, trading books very rarely – if ever – talk about this principle. They gloss over it completely, or fail to acknowledge it exists.

If you are young, starting out as a trader, having someone illuminate this now could save you from years, even decades, in the wilderness. If you have already spent many years in the wilderness, this could be the start of your pathway out.

Once again, this principle is very "simple" on the surface. But the DEPTH of it, the POWER of it, is what is profoundly important. That is why it must be discussed at length.

I call it the Ocean's Eleven principle because, in the 2001 remake of the popular film, there is an exchange between Brad Pitt and George Clooney (as their respective movie characters) that sums up the concept perfectly.

Pitt: Why do this?

Clooney: ...Because the house always wins. ***Play long enough, the house takes you. Unless, when that perfect hand comes, you bet big. Then you take the house.***

To isolate it:

PLAY LONG ENOUGH, THE HOUSE TAKES YOU. UNLESS, WHEN THAT PERFECT HAND COMES, YOU BET BIG. THEN YOU TAKE THE HOUSE.

That is the Ocean's Eleven principle in a nutshell. The way to win – not just in trading, but in MOST things e.g. business, love and life – is to *bet big at the right time*.

If you don't do this, the "house" takes you in the long run. And that's just how it is...

WHY LIFE IS A GRIND: THERMODYNAMICS

To grasp the power of the Ocean's Eleven principle, we have to do something a little odd. We have to talk about the laws of thermodynamics.

There are four laws of thermodynamics. The first is lesser known because it is the "Zeroth" law, having to do with equilibrium between systems. The more popular three laws (1-3) are roughly summarized as follows:

▪ Energy is conserved – it can neither be created nor destroyed.
▪ The entropy of an isolated system cannot decrease.
▪ Entropy increases as system temperature approaches zero.

"Entropy" is the persistent trend towards disorder and randomness. Think of a swimming pool that starts as 50% water and 50% dye in separated halves. Over time, the water and dye molecules mix. They will never "un-mix" of their own accord.

Or think of energy lost as heat. Whenever energy is used to create motion, there is always some leakage to heat and friction. This is non-recycled energy dissipating into the system. The universe itself may experience "heat death" when all energy dissipates.

Now think of your co-worker's desk, or the state of a teenager's bedroom. Without regular efforts to clean up those spaces, what happens? Messiness increases. Entropic forces naturally tend toward randomness and disorder. Everything breaks down.

The humorous interpretation of thermodynamics goes like this:

▪ You can't win.
▪ You can't break even.
▪ You can't get out of the game (until temperatures hit absolute zero).

Why does this matter? Because the laws of thermodynamics are not just for scientists. They impact <u>everything</u>. They explain why life is a grind. They explain why it feels impossible to get ahead most of the time (because it is). They explain why most jobs feel like dead-end treadmills and why most efforts to "get ahead" wind up failing.

The comedian Drew Carey has a joke that goes like this: "There's a support group for people who hate their jobs. It's called 'Everyone' and they meet at the local bar."

The joke exaggerates. Some people love their work… love their life… love what they do. But for the <u>most</u> part it is true. And thermodynamics offer a clue as to why. **Most of our daily efforts equate to dissipated energy.** Our efforts to save, or build, or get ahead, wind up as friction and lost heat. Small actions don't make much of a difference.

Meanwhile, there are countless finance gurus who blather about "saving" your way to wealth. They focus on frivolous things like not drinking Starbucks or buying discount movie tickets. As if those piddly gestures make a difference. As if the grind of day-to-day life doesn't swallow up such trivial tokens like Jabba the Hutt gulping down a grub.

Think about planet earth for a minute. Thermodynamics govern the distribution of energy in a closed system. When it comes to energy, if the earth were a 'closed system' you and I would be dead. Actually, scratch that. We would never have even been born.

That is because, as a closed energy system, earth would have dissipated its energy stores (succumbed to entropic forces) multiple eons ago. Our planet would have experienced a local 'heat death', winding down like a dead clock, and all life would have ceased.

But the earth is not a closed energy system. **Vast quantities of energy come in from the outside.** We are literally bathed in energy from a constant and reliable source: The Sun, our nearest star. In energy terms, the sun makes all things possible.

The sun bathes the earth in so much energy, in fact, we barely use an infinitesimal fraction of it. On a daily basis, humans use about a millionth of the sun's output as delivered to earth's surface and a billionth of the sun's output in total.

Why does this matter? **Because energy from the sun allows order to be created and maintained, even as the laws of thermodynamics are preserved.** With an outside energy source, it becomes possible to sustain and maintain both order and growth.

When the sun's energy hits the earth, most of it is dissipated as heat. But some is converted into plant and animal life… cellular structures… fossil fuels… and nourishment for thinking beings (humans), who then go on to build cities, create art, and so on.

Eventually the sun will burn out. Scientific estimates put that event 2.8 billion years away, however. So we can relax (at least on this topic). The sun has us covered. Literally.

What can we learn from this? Here are the parallels to life and trading:

If your life is a "closed system," the energy within it will dissipate.

To replenish – or grow – you must tap an outside source of abundant energy…

Just as the earth's looped energy systems are replenished by the sun.

Again, the Ocean's Eleven principle is about "betting big" at the right time. This is akin to **tapping an outside energy source for replenishment and growth.**

If you don't do this, you die. Or you maintain, and grind away slowly, until it all ends.

This eventual "personal heat death," with resources depleted for lack of external energy source, is **exactly what happens to countless millions with "normal" jobs and lives.**

Do you know why the social security age was originally set at sixty-five? Because early calculations showed sixty-five to be the age people dropped dead from exhaustion. Do you know where the word "mortgage" comes from? The original French phrase was "le mort gage," or literally "engagement until death." The bank wants you on its hamster wheel until you croak. **Without an outside energy source to tap, you get used up.**

Let's look at the Ocean's Eleven principle again:

PLAY LONG ENOUGH, THE HOUSE TAKES YOU. UNLESS, WHEN THAT PERFECT HAND COMES, YOU BET BIG. THEN YOU TAKE THE HOUSE.

In this particular case, "the house" is not a casino. It is the universe itself.

On another level, "the house" accounts for **the energy-draining structures all around you**… the mechanisms designed to get you on a treadmill, turning your capacity for work, your bodily output, into an energy source for others until you are dead.

Millions of Western Worlders are unwitting coppertops. They live on borrowed funds (think credit cards and mortgages and excessive car payments), giving up their energy and effort to heat dissipation in the form of interest payments collected by the banks. They work at unfulfilling jobs, giving up the bulk of their waking lives to pursuits where others – the corporation and its investors – capture the lion's share of productive value.

So how do you beat "the game?" How do you achieve what you desire in life? Not by grinding harder. Not by being a better employee. Not by following the BS advice of some small-minded financial planner who suggests you can find success in this life by denying yourself small pleasures and living like a self-righteous miser, in the hope you will one day "save" a million dollars in nickels and dimes (even as inflation eats the value).

No, you win by applying the Ocean's Eleven principle. When the right opportunity comes, you bet big. And then you take the house. Betting big at the right time is your **means of tapping an outside energy source.** It is your means of **dramatically increasing the energy within your own system,** while yet obeying the laws of thermodynamics.

FROM LIVERMORE TO BUFFETT

Okay, let's get back to trading. Who makes use of the Ocean's Eleven principle? Who has used it to build fortunes, or to achieve escape velocity toward financial freedom?

Jesse Livermore certainly used it. He used it in spades. There was a reason they nicknamed him "the boy plunger." The whole concept of "plunging" is, by its very nature, making the big bet at the right time.

You know who else used the Ocean's Eleven principle in spades? Warren Buffett. This one might be a surprise, because Buffett is not a "trader" at all. He is held up as the ultimate example of a cautious value investor, whose favorite holding period is forever.

But do you know how Buffett really got rich? Do you? Certainly not this fluff about buying "wonderful companies at fair prices," as if timid conventional BS spouted by mutual funds and cookie-cutter financial planners can make anyone wealthy. No, Buffett became Buffett by making HUGE DAMN BETS at THE RIGHT DAMN TIME.

"When that perfect hand comes, you bet big, and then you take the house."

Let's do a quick run-through of "Ocean's Eleven principle" real world examples (shortened in the following to O11P):

Jesse Livermore used O11P to make $100 million in the crash of 1929.

Warren Buffett used O11P at multiple points in his career: Putting 40% of his money (and clients' money) into AMEX stock at post-scandal prices in the 1960s. Massive bets on GEICO shares… firesale WaPo shares in the 1970s… Coca-Cola stock after the '87 crash...

Paul Tudor Jones used O11P to make nearly $100 million in the crash of 1987… and then hundreds of millions more in the Nikkei crash of 1990.

Carlos Slim Helu used O11P to become one of the richest men in the world (rivaling Buffett and Gates) by putting a modest family fortune "all-in" on Mexico. "Blood in the streets" turmoil allowed him to scoop up hugely valuable assets for pennies on the dollar.

Kirk Kerkorian used O11P to become a billionaire by turning poker winnings into a charter flight service… selling the charter flight service for tens of millions… then betting it all on a dusty hotel in a dusty little town that later became the Las Vegas MGM Grand.

John Paulson used O11P to make "the greatest trade ever" in absolute dollar terms, betting hugely against subprime to net billions for himself and billions more for clients.

George Soros used O11P to make a billion dollars in one day (and more than that actually) betting the British pound would be forced to break its imposed trading band.

Julian Robertson, one of the greatest hedge fund managers of all time, was known to use O11P in purchasing huge chunks of companies, as much as 15-20% at a time.

The list could go on. It also extends to the business world.

Most world-class businesses are powered by **big, well-executed bets on a single area of dominance, or even a single idea**. This is O11P as applied to commerce.

The most successful CEOs of all time, from a shareholder value perspective, had a laser-like focus on share buybacks at the right time (when shares were undervalued), along with skillful use of debt and leverage – they didn't fear it, they used it – to enhance the size of the big bet they were making (on the underlying "big idea" of the company).

"When that perfect hand comes, you bet big, and then you take the house."

But you know who doesn't use the Ocean's Eleven principle? Employees who never break out of their dead-end jobs. Small business owners who subject themselves to a painful grind their whole careers, with nothing more than workman's wages to show for it (plus ownership headaches to boot). And, of course, traders who fail to break through, fail to thrive, and fail to book enough profit to attain financial freedom.

BACON'S LAW (DON'T FIGHT BIGCO)

Robert L. Bacon wrote a book in 1954 called "The Secrets of Professional Turf Betting." The book was about making money at the racetrack. But a lot of Bacon's wisdom applies directly to trading, because Wall Street functions like the racetrack pari-mutuel system. The "crowd favorites" are typically overvalued to the extent of their popularity.

Here is Bacon on why you "can't grind:"

I don't want to be like Pittsburgh Phil and win a million dollars at the races. I'd just like to grind out $25 a day for myself without any risk!

How many times have you heard something like that from turf fans who were trying to be "conservative" at racing? ... Oh Brother! You can add this "grind" idea to the long list of other unsound notions held by the public play.... One sure thing that a smart player engraves deeply into his skull, is the fact that you MUST speculate at the races. You CAN'T grind!

The player at the races can't grind or chisel because [that girl] is taken. The racetrack has all grind and chisel privileges! The mutuel take and the breakage add up to a percentage that continually grinds and chisels the betting money...The grind privileges are spoken for and taken, so the professional bettor must speculate. The mutuel grinding only goes one way - against the bettor. But any percentage can be overcome by enough winners at fat enough prices!

Fortune favors the speculator over the grinder because of the plain old arithmetical percentages. The speculator has a percentage chance to win. The grinder has no chance. To beat the percentage of the mutuels, the player must ALWAYS have an overlay. He must always have an extra percentage in his favor, to counteract the "take" percentage. Forget about this idea of "grinding out a day's pay." If you want to make a day's pay at the races, get a job watering horses, or pitching manure into trucks. But never try to grind it out of the mutuels.

Wall Street is similar to the racetrack in that **"the grind privileges are spoken for and taken" via investments in giant infrastructure.**

Take a giant player like Goldman Sachs. You have probably seen the headlines about how Goldman (or some other investment bank) had three hundred days in a row without trading losses (or some such thing).

How is that possible? Because Goldman (and others) have made **giant infrastructure investments.** They have tens of thousands of employees… thousands of daily opportunities to exploit client order flow (as the bank gets to see what customers buy and sell)… endless algorithms and computing power… all directed toward making safe, small, arbitrage-like bets.

High Frequency Trading (HFT) firms are the same way. Huge investments in computing power, fiber-optic cables, constantly upgraded algorithms with PhDs working on them, on and on. It is a never-ending arms race of **giant infrastructure investment.**

Institutional money managers are similar in this way. Do you know how a big institutional house can support itself on 6% annual returns? Because the institution has hundreds of billions under management, and takes in hundreds of millions in fees.

How do you get hundreds of billions under management though? Once again, by making **giant infrastructure investments** (and exploiting connections that go back decades).

We can collectively think of these giant infrastructure players as "BigCo."

On Wall Street, "BigCo" makes money by grinding and chiseling (for nickel-and-dime profits or fees that add up) **across <u>huge scale</u> and a <u>massive infrastructure base</u>.**

This also explains, by the way, why institutional managers can spend ridiculous amounts of money on stupid stuff. A typical institutional portfolio manager might have five or ten analysts working for him, all producing research that doesn't add value (i.e. sifting gnat shit out of pepper). This manager might spend hundreds of thousands flying to expensive conferences, again to do things that appear a 95% waste of time and money.

And all that activity might indeed be 95% useless, except for three things: 1) It <u>appears</u> to be a justified use of funds in the eyes of conservative clients. 2) It demonstrates the "bigness" of BigCo. 3) It doesn't matter so much next to the sheer scale of the fees.

Here is the bottom line:

• BigCo is a leviathan-sized beast. You and I are not.

• If you try to squeeze out nickel-and-dime profits, you are playing BigCo's game.

• If you try to invest "conservatively" and "soberly," you are also playing BigCo's game.

• Trying to play BigCo's game doesn't make logical sense.

• **When you use O11P, you wield a specific advantage BIGCO DOES NOT HAVE.**

This, again, is the true beauty of the Ocean's Eleven principle. You can't nickel and dime profitably. You don't have the infrastructure or the spread of resources. **But you <u>can</u> make excellent bets at just the right time. And that is something BigCo <u>CAN'T</u> do.**

The very edge that BigCo applies – using infrastructure, scale, and leviathan-like size to nickel-and-dime – works <u>against</u> them when it comes to the Ocean's Eleven principle. They CAN'T bet big on an individual stock, compelling macro trade, or what have you. Even if they tried (and they aren't allowed!), they are just too BIG to "move the needle."

This explains something powerful Warren Buffett once said: *"It's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that."*

Do you know why Buffett said that? **Because he understands O11P… and knows how to use it. The Ocean's Eleven principle is how you beat BigCo.** You do not "grind."

OPM + OPE

Here is something else to think about. When you see a guy worth hundreds of millions to billions doing an interview on TV, or doing some normal lifestyle thing, it is tempting to wonder:

"How does he have time for that normal-looking activity? How come he's not holed up in a bunker tending to his huge fortune, or doing some high-stress thing to make money?"

The answer, more often than not, comes in the form of OPM + OPE.

OPM = Other People's Money

OPE = Other People's Energy

OPM (other people's money) is the classic way to get rich as a hedge fund manager. If you can become a superstar hedgie like David Einhorn or Bill Ackman, you can get your assets under management up into the $10 billion range. From that point, if you book a 10% annual return for the year, you have $200 million worth of incentive fees to dole out between yourself and staff. From a lousy ten percent return!

OPE, other people's <u>energy</u>, is also very powerful when leveraged properly. If you can build a company and hire smart people to run it for you – people you can really trust – you have a cash-flow producing asset that sustains itself in your absence.

This works in trading too… and naturally ties back to O11P.

When you make a big market bet, and you let the trend play out, you are using OPM + OPE to make money for you.

It's a lot easier to hold a winning position in a monster trend – especially when you have logical rules about how to manage it – than it is to and keep jumping in and out. This is using OPM + OPE in the sense that <u>other</u> people are jumping in and out… constantly second-guessing the trend or coming in late… while you are just <u>riding</u> the thing. Meanwhile, fundamental forces of human action (OPM + OPE again) are unfolding to propel the trend in the direction you anticipated… again, while you **just let it happen.**

Another advantage of letting a trend unfold (using OPM + OPE, as <u>others</u> drive the trend with their energy expenditure) is the size of opportunity it allows for. A truly big business idea can leverage a lot of OPM + OPE. A truly powerful trading idea can usually absorb all the capital you can throw at it, allowing full exposure to a killer OPM + OPE situation.

When you see a very wealthy self-made businessperson who looks confident and relaxed, chances are she has leveraged OPM + OPE. **Her wealth is no longer dependent on the "closed system" of her own personal energy output.**

You can do the same in trading, with the help of the Ocean's Eleven principle. But only if you focus on identifying "max conviction" type situations and exploiting them with size. **So many people fail to grasp this. Do you now see what they miss?**

THE NINETY-TEN DISTRIBUTION (WHY MOSTLY NOTHING HAPPENS)

If you were to follow a self-made wealthy person around, you might discover something puzzling: On most days, there isn't a whole lot happening. If you were to watch the trading screens and P&L of a very wealthy trader, it would generally be the same experience: Lots and lots of quiet. You might see a little action, but probably not a whole lot. Almost certainly nothing crazy.

If most days are quiet, though, where did that big slug of wealth come from?

This goes back to how the market distributes profits – on a ninety-ten basis. **For truly successful traders, 90% of profits will generally come from 10% of trades (if not fewer).** Like the laws of thermodynamics, this is a feature of how the universe works.

This pattern generally holds (not ALWAYS, but USUALLY) in life and business too:

• In life, 10% of your important decisions will have 90% of impact.

• In business, 10% of decisions will determine 90% of success (or failure).

• In creative pursuits, 10% of ideas / projects will have 90% of the value.

Most traders and investors do not exhibit this 90/10 pattern in their P&L results. Do you know why? Because they do not have successful habits. **The presence of the 90/10 pattern does not create success… it is a marker of successful habits being present.**

The 90/10 P&L pattern is not magical. It just tends to show up among traders who **know how to make big bets, i.e. HOW TO USE O11P.** In other words:

If your trading P&L approaches 90/10 over time, it is evidence you are using O11P, which in turn increases your odds of long-run success **by increasing your natural alignment with how the market, and the universe, tends to distribute profit.**

If your trading P&L pattern does NOT approach 90/10 over time, it is evidence you are not using O11P, which decreases your odds of success because, if you are not in alignment with natural opportunity distribution, you are likely fighting the tide somehow (fighting with BigCo perhaps) and **not in synch with your natural edge as a trader.**

There is powerful evidence for ninety-ten in the trading world. It comes from Kenneth L. Grant, who served as risk manager to many of the top hedge funds in the world (Jones, Bacon, Cohen etc). In his excellent book "Trading Risk," Grant says this (read carefully!):

"Some years ago in my observation of P/L patterns, I noticed the following interesting trend: ***For virtually every account I encountered, the overwhelming majority of profitability was concentrated in a handful of trades.*** *Once this pattern became clear to me, I decided to test the hypothesis across a large sample of portfolio managers for whom transactions-level data was available. Specifically, I took each transaction in every account and ranked them in descending order by profitability..."*

"What I found reinforced this hypothesis in surprisingly unambiguous terms. ***For nearly every account in our sample, the top 10% of all transactions ranked by profitability accounted for 100% or more of the P/L for the account.*** *In many cases, the 100% threshold was crossed at 5% or lower. Moreover, this pattern* ***repeated itself consistently across trading styles, asset classes, instrument classes, and market conditions…****"*

Think about that. The risk manager for the top hedge funds in the world – the absolute best!!! – went back to study as many highly successful big-league traders as he could find, and **THE NINETY-TEN PRINCIPLE HELD ACROSS VIRTUALLY ALL OF THEM.**

It appears that "mostly nothing happens" because that is true. For the most part, things are quiet. But the quiet times are necessary as interludes between the truly large-scale bets… when the Ocean's 11 principle applies. You bet small… **until it is time to bet big.**

You see the EXACT SAME THING in poker. In deep-stack cash game poker, the distribution of profits is EASILY ninety-ten. And that's not even in terms of hands, but entire sessions. **Poker and trading are games of outliers.** That's where the profits are.

Out of every 300 hours of high stakes poker played, a mere thirty of those hours might account for 90% of profits and then some… the other 270 hours netting out as a wash or a very slight positive. **This is not something you want to fight. You might as well fight the ocean tides. Ninety-ten is simply embedded in how the structure of reality works.**

Players who understand this (in markets and poker alike) spend most of their time "jockeying for position." They seek out pockets of clarity, and hold back when the fog of war is thick. They show "infinite patience and tremendous aggression," betting hugely when the time is right.

They utilize the Ocean's Eleven principle. In so doing, the universe works in their favor.

WHY MARKETS BEAT POKER

We love the game of No Limit Hold 'Em. The combination of math, psychology, strategy, creativity, human behavior, emotional control, situational analysis, and general fluid awareness makes it the second best game in the world. (Trading is number one.)

Markets beat the hell out of poker, though, and here is why: Imagine a poker game where you could freeze time prior to the flop and **change the stakes at will**. Say you have a modest raise and three limpers ahead of you. You look down at pocket kings on the button. You say: *"Hey guys, I know we were playing 2-5 No Limit, but let's change to 25-50 No Limit for this hand. And everybody put an extra $10,000 on the table..."*

Imagine if you could jack up the stakes **only when the preflop cards and table dynamics suited you perfectly**. Imagine if you could play the vast majority of hands at small stakes, and then dial the stakes up HUGELY right at the inflection points when the odds align massively in your favor. **In trading, YOU CAN ACTUALLY DO THAT. It's called dynamic position sizing (in context of the Ocean's Eleven principle).**

If you had that kind of advantage, why would you not use it? It would be crazy not to use it. There is no excuse, other than lack of knowledge, lack of capital, or lack of guts. Think of the edge traders have who know how to really do this, over the masses that don't!

And yet, how many traders apply dynamic position sizing in markets? How many do it properly? Again, all too few. Most traders have no idea how to use the Ocean's Eleven principle. **As such, they give up one of their biggest advantages – maybe THE single biggest advantage the independent trader has – that BigCo can never touch.**

It's nutty really. Mind-boggling. But doesn't it all make sense? When you see (and wonder) how so many traders can fail and struggle and pike along and hit walls… or otherwise claim success but only marginal rinky-dink success… and never really TRULY break through, always a touch of daylight then back to struggling… when you wonder how depressingly common the widespread nature of trading failure is, in spite of all the efforts… **now you see what is missing.** Are the pieces clicking together yet?

It's because the vast majority of traders don't know how to do exactly what we are talking about right here. They don't know O11P. One of the biggest advantages they have is left untouched.

THE TWO FARMS RULE

There is a common Wall Street adage:

"Don't bet the farm."

But there is another we like better:

"If you're going to bet the farm, have two farms."

In applying the Ocean's Eleven principle, there is an art and a science to doing so properly. It takes skill, analysis and training to make big bets at just the right time, in such a manner that you don't get killed if you are wrong. This is so important, I am going to repeat the following three times:

• With knowledge and skill, you can make big bets **without excessive risk.**

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When George Soros made his billion-plus score on the British pound in one day in 1992, do you know how much he had at risk? Very little relative to reward. The trade structure was asymmetrical. Druckenmiller and Soros knew it going in. They designed it that way.

When John Paulson made his huge subprime killing (the biggest trade ever in sheer dollar terms), the risk was once again asymmetrical. Opportunities present themselves to bet large, and bet boldly, while **maintaining a firm handle on risk.**

The two farms rule says that you **never, EVER put your financial health in jeopardy for the sake of a market bet. EVER.** If you are going to risk a meaningful percentage of capital, you make sure to have a "second farm" in reserve.

In high-stakes poker, there are times where you risk your entire stack and it is absolutely 100% right to do so. In fact you should always assume, in any No Limit game, that losing your stack is a non-trivial possibility. If you can't afford to lose it, don't put it on the felt. **Your stack is not "the farm" though**. If your chip stack represents your entire bankroll, or too big a chunk of it, you shouldn't have sat in that game in the first place.

Similarly in trading, if you risk a sizable percentage of your trading account, that is not <u>necessarily</u> an unwise thing – depending on the size of the opportunity, the level of your conviction, and the personal relationship of trading account size to total bankroll size.

For example: Picture two traders, Hank and Frank. Both have $25,000 trading accounts. For Hank, that 25K is only a small portion of his total risk capital – much of it is parked elsewhere – and Hank has strong monthly cash flow to boot.

For Frank, however, that 25K is all the money in the world, and every penny of Frank's monthly cash flow goes to paying bills. Same size account, two completely different situations. If Hank were to risk a big chunk of his account on a swing and miss, it wouldn't be a big deal. If Frank were to do the same, it'd be disaster. See the difference?

The financial media gives us the impression that only idiots bet big. That is because, when you hear about a giant bet in the press, it is usually some rogue trader blowing up his employer.

There was the Canadian natural gas trader, Brian Hunter, who vaporized $6 billion and shut down a giant hedge fund. There was Jerome Kerviel, the French guy who lost billions for Societe Generale. There was LTCM, one of the most famous blowups of all. Before that there was Nick Leeson, who took down centuries-old Barings Bank. The list goes on, with many not mentioned here.

Using the Ocean's Eleven principle is like using dynamite. You don't put dynamite in the hands of idiots. And you don't trust traders who have incentive to "go big or go home" in the sense of high-risk bets made with someone else's money. If a trader of someone else's money – say, a large bank or hedge fund – gets way behind on losses for the month or quarter, and knows he'll be fired when management finds out, that trader has every incentive to take a crazy risk. Why not? He might save his own bacon, and if he not who cares, he was going to get fired anyway.

The best practitioners of the Ocean's Eleven principle are those trading their own money. Or, if they are hedge fund managers, they are the guys (and gals) who keep the vast majority of their own net worth inside the fund.

For investors, the best insurance against a "rogue hail mary" is the bulk of the manager's net worth riding shotgun with their capital. The second best insurance is knowing the fund's methodology and protocols inside out – knowing the manager and the strategy.

A MULTI-FACETED PROCESS

Pop Quiz: Are world-class traders better classified as "patient" or "aggressive"?

It's a trick question. The answer is both (and it's exactly the same with poker players).

The world-class trader is FAR MORE PATIENT than his lesser peers. His patience makes him stand out. It is a big aspect of what he does differently.

And yet the world-class trader is also FAR MORE AGGRESSIVE than his lesser peers. His tremendous aggression, almost hyper-aggression, also makes him stand out. It too is a big aspect of what he does differently.

The seeming contrast is reconciled by selectivity. MOST of the time, patience dominates. MOST of the time, modest bets are made in the name of "jockeying for position" and seeking "pockets of clarity." **But then, at the PROPER time – and ONLY at the proper time – aggression (or even hyper-aggression) is displayed.** When all the elements line up, you fire the big guns.

So how do you do this? How does a hungry trader make use of O11P? It's a multi-faceted process. There are numerous elements that go into it. Think of the components of a racecar engine: **If all the pieces are correctly aligned and in place, the engine roars into life. If even one piece is missing or misaligned, it doesn't work.** To apply the Ocean's 11 principle in trading, here are a few things you'll need:

Position Sizing Knowledge: How to determine proper position size. How to dial up or dial down. How to size positions relative to risk.

Portfolio Management Knowledge: How to think about different positions in a portfolio, and how to quantify net impact on the portfolio itself.

Pyramid Knowledge: Knowing when to add to a position (aka "pyramid") and why. Knowing how to start small and ramp up quickly (as sometimes it is the second or third bet, not the first bet, that is the large one).

Awareness of General Conditions: Going back to the "seven hallmarks" – which types of environments are favorable (or unfavorable) for large positions and why.

Awareness of Fundamental and Technical Inputs: Again going back to the hallmarks – it is hard to make big bets on price action alone. A confluence of price action and fundamentals (with general conditions on top) is desirable for the big trigger pull.

Position Management Techniques: For handling the position once it is in place. When do you take full profits? When do you take partial profits? How do you adjust risk points? How do you account for correlation risks?

Emotional Control: For handling the pressure of holding a meaningful position… resisting the temptation to take profits too early or at the wrong time, and so on.

Those are just a few examples of what goes into O11P as applied to trading. Nor did we mention the need for a trade idea vetting-and-testing process (to develop conviction).

It should be no surprise this stuff is challenging. It should be no surprise it takes training, skill and experience to get world-class results. **That is why the profit potential exists.** If it were easy as 1-2-3, everyone would do it. And then there would be no money in it.

A MATTER OF TRAINING…

It takes years of training to become a lawyer, dentist or architect (to pick a few random examples). There is no surprise in this. It takes tens of thousands of dollars (if not hundreds of thousands) to fulfill a white collar education cycle. No surprise here either.

And yet, with trading, there is a popular disconnect.

Why do so many casually assume that trading, as a profession, can be taken up with not just minimal education, but almost nil education? Why do so many assume the timeframe for learning a full suite of trading skills is instantaneous (or nearly so)?

The irony is rich because, as a profession and a skill set, trading offers so many <u>more</u> advantages than other white collar paths. For example: How many lawyers, dentists or architects (again just a random sampling) have the ability to:

• be their own boss…
• work from a home office…
• work from locations around the world…
• scale operations (increase size) with minimal effort…
• enjoy true personal freedom…
• enjoy immense income potential…
• immerse themselves in work they love…

Is the true potential of trading not worth a deep investment in education and training? And yet, so many balk when they discover it takes more than just hobbyist-level effort. *"It takes two years to become a dental hygienist, and four years post-college to get an M.D, but I want to be a fully equipped trader in two months with light effort."* Huh???

One can only conclude that, for many, the desire to trade is **more dream-like than serious**. There is a fantasy football scenario going on in the dreamer's head… where the dreamer himself is the number-one draft pick (without having put in the work).

This also explains the broader trading industry. It is geared toward **appearance and entertainment**. It is geared toward **hobbyists.** The industry calculus goes like this:

• Focus on subjects that are **popular and entertaining**
• Focus on subjects that are **easy and fun to think about**
• Deliver material that hobbyists **already know they want**

And you know what? That's a great recipe for moving product. That recipe is as old as the hills: "Give customers what they want." **It doesn't actually <u>train</u> anyone though.**

This makes perfect sense when you think about it. The trading industry, which is geared toward maximizing revenues (what else), has evolved to serve the desires and temptations of the majority. And so, **if the majority of trading enthusiasts are actually <u>hobbyists</u> who want to be entertained,** guess what the industry produces…

The Mercenary approach is different. We operate on the following assumptions:

- Our community members **want to become master traders.**
- They want to **learn what it takes** to become master traders.
- They want to be **taught what they need to know** (not what is entertaining).
- Even if it's hard, **especially** if it's hard, they will not be stopped in their quest.

We seek those with a burning desire to become master traders. We seek those who understand that **the hardness and complexity and challenge are <u>features</u>, not bugs, because they underscore why the trading opportunity is real (and why it will endure).**

As a result of this focus, we lose a whole lot of people (which is perfectly okay). There is a gap between "daydream" and "reality." Many who come to Mercenary Trader have their trading aspirations completely wrapped up in the "daydream" phase. As TE Lawrence put it, they are "dreamers of the night:"

All men dream: but not equally. Those who dream by night in the dusty recesses of their minds wake in the day to find that it was vanity: but the dreamers of the day are dangerous men, for they may act their dreams with open eyes, to make it possible.

Not everyone wants to be woken up. In fact, only a small minority do. Another strange thing… but just another feature of human nature (and the way the universe works)…

YOU CAN DO THIS…

If you want to truly learn the Ocean's Eleven principle… to not just understand it, but masterfully <u>apply</u> it… we can teach you the key elements. But as we have shown, the mastery of one big thing first requires **the mastery of multiple smaller things.**

This is why we designed the *MT Driver's Manual* to be the most immersive teaching experience in the history of trading. Our goal with the DM is <u>not</u> to make profits from a product, but to **seed a community of master traders…** with traders at all levels, from white belt to ninth-degree black belt, sharing ideas and helping each other.

Because it is still early, we have created a special DM offer that **ONLY 500 PEOPLE** can access. **Once the 500th person signs up, it disappears forever.** To find out more, click the link below (or type it into your browser):

mercenarytrader.com/join