



Faces of Trading Emilio Tomasini

Successful Short-Term Trading

■ *Emilio Tomasini is a trader, author and organiser of trading competitions and seminars. The fact that he conducts the evaluation of the executed trades at his competitions has helped him gain extensive multi-faceted knowledge in many areas of trading. In this issue of TRADERS' we talk to him about the discipline of short-term trading.*

TRADERS': Tell us a little bit about yourself.

Emilio Tomasini: I decided to devote myself to trading in the far away 1992 during my university studies. Since I had a background in local journalism, I was fascinated by the possibility to work from home with a computer and an internet connection. My cousin is a kind of internet

guru in Italy and he got the first private access to the web in 1992. I was in the same room when some young guys opened the door to future and that was the most exciting moment of my life. I did not know what Internet was but since I was a countryside journalist I took only two minutes to understand what it meant for the information

and publishing world. It was in that moment that I took a decision that eventually changed my life. I wanted to work in the information world with internet, that is to be a journalist that owns his newspaper. From that point onwards the step to financial market information, forecasting and technical analysis was really short. Some years later, I founded LombardReport.com, which is the most known and appreciated financial website in Italy and the Top Trader Championship with Real Money, a real money contest with more than 1400 participants so far. I do not know if I am a good trader or not, this is an opinion I cannot have about myself since it could sound too arrogant or too false, but surely everybody recognises that because of the auditing of more than 1400 traders in a 10 years period I have a good grasp of the many different trading styles and methodologies that are around.

TRADERS: What is your trading approach?

Tomasini: Let's say I am a trader that considers trading really like managing an enterprise. So the most business activities you have, the most likely you will survive. I was and I still am fascinated by systematic trading since I believe that trading must rely on a statistical basis, that is markets must be approached in a scientific way. And this is what trading systems are doing. But in the early stages of my trading career and recently, when since I dismissed from University I got more free time, I am scalping Italian stocks. There is no contradiction between the two activities since the first is a scientific approach to trading and the latter is a way to try to catch the market in a very short time span that, being the today available technology, could not be tested or it can but with a really huge research and development work that goes beyond anyone's possibilities. You cannot test a trading strategy based on bid ask offers and quantities on the book. Let's think about what was technical analysis in 1920 or in 1950: it was something that could be impossible to be tested on a computer and it was recognised as a useful approach only by true believers that proved it was effective only through expertise. Now we know that 90% of the technical analysis of those times only provide a little support to trading since it lacks any scientific foundation. But now we have powerful computers one mouse click far away and testing software available to everybody and very cheap. The world has changed. So nobody can be sure than in 10 years we will be able to test also scalping techniques that are commonly in use today.

TRADERS: How is short term trading different from more long term trading styles?

Tomasini: Long term successful trading is always based on a sound methodology, or let's call it a trading system. I believe many long term traders developed a methodology which is not known to themselves at a conscious level. But they repeat the same successful steps year after year always taking the same decisions based on the same premises. Gut feeling is less useful with long term investment because you can lose your mind very easily: markets are often just a quote every week and you try to collect the right news to have an idea about the market. Short term trading is different: gut feeling is everything if you are following 10 hours per day the markets. Markets are talking and you need to listen and they will tell you where they are heading. It is not difficult. Or let's say it is difficult to sit 10 hours per day just

watching the markets, not understanding them. Just think about what happened in school: it is very difficult for a professor to distinguish from a clever student that has no will to study from a stupid one that studies 12 hours per day. Results can be completely different from what we expect in life: in school the clever student will fail and the stupid one will have the highest mark. We need to climb to a step higher and to define what is intelligence. And over all, if in order to make money you need to be clever. It could be that a stupid trader will make a lot of money simply because he is watching the market 12 hours per day. "It is not the thinking which makes big money, it is the sitting" is a Bernard Baruch's quote which is always true. But people always think that is possible to make money with an indicator, with a pattern, with a particular technical analysis software. This is false. It only helps the industry to sell the next seminar, the next platform, the next book. If you want to be a short term trader start thinking you need to sit at least 12 hours per day for at least 12 months per year with no holiday in between. And then 99% of those that are aiming to be short term trading will change their mind. I come from Modena, in Italy, and I am often asked if it is difficult to make a good traditional balsamic vinegar (aceto balsamico tradizionale di Modena). No, it is not difficult: just take the right Modena's grapes, boil them, put them in wood barrels and wait ... 25 years. That's it!

TRADERS: Many people think that day trading is the most risky trading style. But the fact that there are no overnight positions helps to reduce the risk tremendously. What is your opinion about this?

Tomasini: This is false. Absolutely false. Dozens of the best Italian and European scalpers were audited by myself and I can assure that overnight risk is not what scalpers are avoiding. First of all let's clarify what is "short term trading". There are 2 different subcategories. There is the "day trading" approach that tries to identify the intraday trend or many intraday trends with positions that can last all the day long. This is usually a directional trading, up or down. Day traders use charts. Then there is the "scalping" approach where trades last minutes if not seconds. Scalpers do not use charts, they watch books and tickers. And this is a complete new world in relation to day trading. Day traders can have long period of no profit activity since the markets are not moving in a precise direction. Scalpers always make money, even if the market does not show a precise direction. Let's say that the equity line of a scalper is made by at least 50-100 trades per day with little losses and little profits. With a starting account of 20.000 euro usually a scalper makes 50-100 trades with a 10 – 20 euro loss and a 20 – 30 euro profits. An average daily total profit of 500 euro is possible, the best one can even make 1000 euro per day if the market is volatile. This is a scalper. The equity line is steadily, smoothly upward sloping. A day trader can encounter a drawdown period if the market is choppy. A day trader can even be flat in a market that is going nowhere. But to be a scalper means to marry the markets and trading. Many day traders have a normal life beyond trading.

TRADERS: Which are the common approaches to trade the markets with scalping ?

Tomasini: You are making a question that is worth millions of Euros. And thousands of books and seminars are sold on it. But so far in the literature I have never encountered the real good explanation. You

see, in Europe you have tons of publications about scalping but if stock books have huge spreads like in Germany or France it is clear that many scalping techniques are not possible. Or if the savings are channeled in the money management industry like in the UK you really have a slow attitude to scalping. I think that at this regards, for only casual reasons due to market conditions, low commissions, good liquidity and low spreads, in Italy we have the smartest scalpers in Europe, and the names of Giovanni Borsi and Remo Mariani are already known in Germany. These guys use all the trading techniques a good scalper can apply to stocks. In USA they are only interested in selling their products and it is why books and seminars about scalping are often just worthless. This introduction helps you understanding why what I am saying you now is very important, not because I am the king of the scalpers but simply because I know what happens behind the stages of the most important scalpers in Europe. The average successful scalper does the following: he has at least 9 monitors, he sits 12 hours watching these 9 monitors without distraction, he usually works outside home since at home you have your wife that does not understand fully what you are doing and she asks if you can help her shopping and your kid that bounces on your knees, he listens always Bloomberg TV not because it helps making money but because it helps in informing you if something big happens or it simply gives you the feeling of what the most part of the people think about the markets (usually they are wrong), he does not reply if somebody calls him on the mobile or if the postman rings at the door, better the mobile is switched off. A successful scalper after the market is closed makes his

homework like a little student, and this homework (reading websites, scanning the markets with Tradestation or Metastock, reading newspapers, financial reports, etc.) lasts from 1 hour to 2/3 hours.

TRADERS': But this is not a trading technique ... you are not replying to my question !

Tomasini: Yes, I know. But if you do this for 12 hours per day for 12 months per year for 10 years in a row then you will become a scalper. It is the same old story of the balsamic vinegar of Modena: just wait 40 years, it is very likely it will be good. What I mean is that a scalper is the king of the markets because before his techniques, what matters is that he must be a hard worker. You cannot make millions of Euro out of a starting capital of 20.000 euro only because you have the right technique. This is not different from a normal business enterprise. Nobody tells the truth, that is scalping means to be a sponge, to absorb and transform quickly every single piece of information the markets are giving you. Normally a scalper did not identify a panel of techniques, a scalper only knows that a stock is going up because it is bought. That 's it. Then we can talk about the scalping techniques or better I will not tell you what I know, it will be indeed useless because if you do not sit 12 hours per day these techniques will have no effect. I think that the only powerful scalping technique covered in the economic literature is the "Step in Front of Size" by Jeff Cooper, Hit and Run Trading Strategies, M. Gordon Publishing Group, 1996. What this strategy conveys is simply watch where the big guys are putting their millions and then follow their tracks. This is the main tenet of

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scalping. If you read 12 hours per day the book of a stock, you will understand quickly if there is a big guy that tries desperately to buy a stock. Then it will be easy to buy and sell it again some ticks up to the same hands. Big guys dislike scalpers because they are sucking money from them like locusts. If a big guy moves his hands on a stock after 2 minutes dozen of scalpers will appear trying to suck his blood. And the more the guy is big the more blood they will suck.

TRADERS: And which are your favorite markets for scalping ?

Tomasini: This is an interesting question. If you scalp stocks like in the "Step in Front of Size" you need to trade stocks where volume is important and where you can enter and exit the market very easily. It means that you cannot scalp illiquid stocks (your size will move the market) or too liquid stocks where volume is meaningless (where hedgers come in volume loses its importance). So that the right stocks for scalping are a kind of personal selection from time to time base on experience and over all to your trading size. The more money you trade the less possibilities you have. The lower money you trade the wider range of stocks you can trade. If on the contrary you are simply providing liquidity to the market in order to make a profit from abnormal huge spread it is clear that you need to find the most illiquid stocks but you will always have a huge profit on few stocks because the market will not allow you to increase your size.

TRADERS: What do you think of day trading strategies that try to do one trade per day (i.e. follow the opening, opening range breakout, etc.)?

Tomasini: This is a different story from scalping. This approach must be tested with a trading system and then traded. So we come to really a different job in relation to scalping. Here computers allow us to make a more scientific job knowing in advance if a strategy will work on a stock or on another one. All this methodologies you mentioned could be dramatically powerful only on certain stocks and for certain period of time. This threatens traders that would like to have a universal strategy that works on all the markets. But this is impossible because markets, financial instruments are like the traders, they get older and older and sometimes they even die or marry or simply disappear. So my advice is if a system works today because it worked in the last 3 years then trade it. Up to when ? Do not know, up to when it will stop working. Easy.

TRADERS: Which are the characteristics of markets which can be traded successfully short term? How do markets have to behave in order to be an attractive market for the short term trader? How do you measure that?

Tomasini: There is no measure. And all the tools the industry have devised are meaningless. A system works because it works. If it works it means that noise is at its minimum level. You need to know that noise one day will grow up. And you will stop trading the system. This is how the story will develop in the long run. There is no trick or nothing wrong. Markets are never the same.

TRADERS: What about overnight positions? Are there strategies where you buy at the close and close at the opening? Do they make sense?

Tomasini: Yes, I saw many of this techniques used by successful trades.

You know, on the markets you make money because you devised an inefficiency in prices and so trading that inefficiency you are correcting it. The open and the close are situations where you really can make money. But nobody want to trade them because often profits are low and the technique is boring, all the days at the same time ... you know ... it is like to be a clerk in a bank. But truth is that good trading is never exciting and always boring. Try to follow a scalper 12 hours per day, after 2 hours you will fall asleep.

TRADERS: What about risk management? Is it a different subject when trading intraday or you scalp ?

Tomasini: It is the same: you make a profit bigger than the loss for the most part of the time. But in reality no short term trader or scalper thinks a lot about risk management. If you are a scalper you know that the most part of the trades will be successful and you over all know that your size is limited so that you have no possibility to change it. If you are a short term trader (day trader) that it changes a little because you will have to confront some drawdowns and than risk management will be much more important. But let me tell a story that goes against the crowd: successful day traders trade many stocks and over all they know that sometimes that strategy on that stocks will stop working. So the main point will be not to modify the risk management in a complicated way but to find the next stock on which the strategy will work. Believe me, successful short term trading is much more harder work than complicated study and research.

TRADERS: Which are the books you recommend people who like to trade short term?

Tomasini: All what Jeff Cooper writes both in the books he wrote and on the website. If you test all his strategies you will see that many of them do not work on a statistical point of view. But if you follow the market 12 hours per day you will see that they can tremendously help you in making money. This confirms that scalping and short term trading are much more "sitting than thinking".

TRADERS: Is there any advice you would like to share with our readers?

Tomasini: When I was at the officer school I disliked the most what they were continuously saying to the cadets., "we need to destroy your beliefs and your habits to build a new set of values and habits". I was saying to myself, "you will never destroy my culture, my values, my family. Me it's me. Not the army". But in the long run they succeeded in their work and they made me a (maybe) good commander. The same process is making the school, the church, capitalism and free trade. They are destroying your beliefs and making new ones. Sometimes they destroy also your life, your family, your friends. I think that trading is the same: if you want to be a good scalper or a good day trader is the same to want to launch a new enterprise, you need to devote yourself 100% to that enterprise. There are not middle ways, no mediations, no negotiations. So if you want to be a scalper just start sitting 12 hours per day in front of at least 9 huge computer screens. Then do it every day for some months. You will see that after a while money suddenly will start flowing in your pocket. Believe me.