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A Conversation With Teresa Lo

Teresa Lo has enjoyed a productive and successful career in the stock market over several decades. After working at brokerage firms after college, she began trading for herself, first in daytrading and then swing trading before eventually becoming more of an investor with a diversified portfolio over a longer time horizon. With the completion of her latest research program, she has come back to stockpicking.

Over the course of her career, she has launched several educational resources for traders, created novel trading indicators, and devised an algorithm for asset allocation. She has published a trading newsletter, hosted chat rooms for traders to learn the craft, and has been interviewed many times in the media. She has written articles for a number of publications.

Lo considers it her mission in life to educate traders and investors about the workings of the market and the traps to avoid, as well as how to trade based on rules and simple technical analysis. Thousands of students have benefited from learning the trading principles she shares.

After receiving a BA degree from the University of British Columbia with a dual major in economics and psychology with a focus on life sciences, she started working in the late 1980s at a local brokerage firm's trading desk, learning about the markets, trading securities, and watching how brokerage firms operate, which she observed was not always in the best interests of clients.

After a dozen years in the investment industry, she called it quits in 1998. She didn't like what she saw and wanted to alert the public to some of the internal practices taking place in the brokerage industry. She went out on her own to found various websites such as IntelligentSpeculator (1998), trendVUE (2000), and InViVo Analytics (2007). She joined forces with IQ Chart, which was absorbed by Infospace in 2001. As a TradeStation user since 1997, she developed her own suite of trading tools and made them available by subscription.

Interestingly, she never really felt that technical indicators contributed to her trading success. Instead, she chose to rely on simple bar and candlestick charts with volume, weaving in her ability to expertly read market sentiment.

She wrote an article for this magazine titled "Looked At Market Sentiment Lately?" in the September 2009 issue and ended the article by saying: "Each of us must continually cultivate independent, critical thinking in order to get through times of euphoria and despair. We must not be our own worst enemy. It is not an easy task to avoid being caught up in the madness of the crowds, but surviving turbulent markets depends on it."

STOCKS & COMMODITIES contributing writer and ETF columnist Leslie N. Masonson interviewed Teresa Lo via email in mid-September 2023 to discuss her trading career, the resources at her website, and her pursuits in educating traders.




The objective of investing is to compound capital efficiently, which means drawdown must be as small as possible.

You've had an extensive and varied career in the markets since the 1980s with several firms, startups, and your own websites.

Briefly, why do you think there were so many steps in your journey prior to making educational and software contributions to the investment and

trading arena?

Like many investment advisors I know, I graduated from college during a huge bull market when firms were



on hiring sprees. My background as a science student turned out to be a great asset because I was already used to learning about subjects I wasn't necessarily interested in, and doing hard things. Problems were there to be solved, and if I didn't have the tools or the understanding, I would acquire knowledge, gain insight, and come up with solutions.

I happened to live in Vancouver, Canada, where the local stock exchange had a notorious reputation thanks to its role in financing penny stocks, the so-called "junior resource stocks." In 1989, Forbes magazine even called the Vancouver Stock Exchange the "scam capital of the world."

My first job offer was from an infamous stock promoter who shall remain nameless. The second one was from the executive vice president of the second-largest firm, and so I spent my first summer gathering documents from an offsite storage facility fulfilling requests from the Royal Canadian Mounted Police in their investigation into the collapse of International Tillex. It was just me in the vault, so I read every piece of paper I handled.

My early experiences in the industry really opened my eyes. I saw for myself that financial gain was often at the expense of investors. I can't recall meeting a single person who traded for a living. The big money came from manufacturing endless amounts of paper, flogging it to the public and churning their accounts, a process filled with markups, commission and fees. Everyone in the value chain extracted something from the investor, capitalizing on their hopes and dreams.

As an outsider and a female, I had no chance to get on that gravy train even if I had wanted to, so right away, I knew trading was the way out, not only because it's an honorable job, but

because the knowledge and skill I acquired was something I could keep and would be of value.

As a teenager, you invested in mutual funds based on using fundamentals. What got you interested in investing?

One of my friends was a model at the top local agency, so I stumbled into modeling as well, and when those paychecks started to add up, I thought about investing the money. My dad had taken large losses speculating in gold bullion during the 1980 bubble, and so the business section of the newspaper was always on the dinner table. That's how I learned about mutual funds. At the time, I had no idea technical analysis was a thing.

Why did you decide to use fundamentals as the basis for your decision-making, and what fundamentals were you using?

The newspaper featured articles about how to select mutual funds, and I simply picked a fund from the list based on the statistics in the paper. As it turned out, 1982 marked the beginning of the biggest asset bubble in history, so anything I picked would have worked out fine. As traders like to say, better to be lucky than smart. Back then, mutual funds were distributed by financial planners, not stock brokers. I had to make an appointment with a firm, and when I showed up, the woman was very stern and grilled the client in front of her before saying there was a 5 percent commission up front. That made for a poor first impression that never left me.

Years later you focused on simple technical trading using price and volume. Can you explain why you changed your trading approach



To my mind, there are three types of risk: diversifiable risk, systematic market risk, and unpriceable risk.


based on technical analysis?

At the brokerage firms, some brokers subscribed to thick chartbooks. They were like a shopping catalog featuring one stock per page with some key fundamental metrics and a chart. I noticed people paid much more attention to the charts than to the fundamentals, so I learned about chart reading mostly by looking over people's shoulders as they studied chartbooks.

How did you eventually learn about and use technical analysis?

The charts in the William O'Neil Daily Graphs books were simple bar charts with a moving average and a line that showed the price performance against the S&P 500 labeled "relative strength," which might have been better described as relative performance to avoid confusion with the relative strength index (RSI) developed by J. Welles Wilder. What fascinated me was how various people would look at the same chart and come to different conclusions. I didn't think much of technical analysis at that time because these judgments seemed so subjective, which didn't sit well with someone with my academic background.

At the same time, though, I got to know people's thought processes, what they were looking for, and how they tried to time entries by reading chart patterns, which is not the same as using an indicator. Patterns made more sense to me, because a chart is literally a graphical representation of prices paid and volume traded. People



are only human, and very early in life, I saw that they were irrational, even crazy, yet the episodes were somehow predictable. Right away, I realized all the hot stocks had something in common: investor sentiment.

My last and longest job was working in a group headed by a legendary trader and partner at Canada's largest independent investment dealer. I wore a bunch of hats, one of which was being the CFO for a charting service he owned with Ian Notley, who wrote a book on trend and cycle analysis. We distributed Notley's Notes every week and I sort of became a resource for those wanting to print charts from the "Notley terminal."

Ian had his own indicator, the Notley curve. The firm's technical analyst told me it was a modified Coppock curve. Thinking about it now, there seems to be a group of indicators that are similar in nature such as RSI and MACD. They're nice to look at, but I'm not sure if they offer much value in terms of generating signals.

When the Vancouver Stock Exchange trading floor closed down, the firm's head trader and his group joined us, which meant we had our own trading desk. Our floor was reorganized and the remodeled conference room became a classic, high-tech "war room," complete with the big projection screen, dimmed lights, dark wood paneling, and so on. The occupants would be tasked with coming up with trading ideas, and of course, I immediately staked out a spot.

A couple of guys from outside the firm showed up one day with a computer, set it up and demonstrated a charting program. Real-time streaming data going into a PC was a new thing then, and of course, we had to be on the bleeding edge, right? The guy who provided the charting program turned out to be a real-life version of Louis Winthorpe III, the character

from the movie *Trading Places*.

His young assistant was a college student with a background in engineering and computer science. A month later, Winthorpe was gone and the young assistant took over, whom we dubbed "The Quant." We immediately switched to TradeStation, which was my official entry into real-time technical analysis, and we also played around with NeuroShell.

I'm not sure if we ever came up with ideas that my boss thought were good. The war room itself was probably more of a vanity project than anything. The most valuable insight he imparted on us was that our job was "to keep 'em alive until they get lucky, because there's one born every minute." If you think about it, that is the essence of trend trading. I convinced The Quant to finish school, and one honors math degree, one MBA, and a CFA designation later, he went on to do great things in risk management where he is still working today.

Along the way he worked at one of the largest firms in the world and discovered there was no reason to do proprietary trading because market making came with a guaranteed 20 percent return for the firm, confirming once again my early observations that nobody in the investment dealer value chain even needs to trade.

In 1998, after working a dozen years at various brokerage firms, you retired at a young age. What instruments did you trade on the job and how successful were you compared to your associates?


At every firm I worked in, employees paid no commission, only a ticket fee, so I traded for my own account like everyone else. I learned from the floor traders to trade only what was hot and avoid what was "dead." Thinking about it now, "hot" meant anything with volume and volatil-

ity. In the world of promoted stocks, there was literally a new mania every month and there was a pattern to the investor sentiment every time. I made money scalping these stocks, but trading profits were never a topic of discussion since the big money was in extracting fees and charging commissions.

Our firm had a U.S. trading desk, and a couple of times a year, the rumor mill would go into overdrive that they had "blown up"—again—shorting something for their own account. There would be much finger-wagging at the greed of the group because why even bother to trade when they were already pocketing the spread? Risk was considered something to be borne by retail traders and investors.

That said, there is actually one trade worth mentioning, not just because I made a lot of money, but it goes to show how things work in the business. The year was 1997. The stock was Bre-X Minerals Ltd. I never paid much attention to it, but at some point, this exploration play in Indonesia became the biggest underwriting bonanza around. Only the top mining analysts from blue chip firms were invited to visit, and the share price, based on speculation as to the size of the deposit in the ground, was astronomical.

Of course, investors expected that it would later be bought out for even more insane prices by a major mining company rumored to be Freeport-McMoRan. Then on one fine day, the chief geologist simply fell out of a helicopter while flying over the property. There happened to be a group of broker-trainees in the war room discussing the stock, which was in a holding pattern just off the highs trading on low volume as if the buyout offer would be coming. I finally could take no more, printed off a chart and said listen up, this is not the best-looking chart in history,



and if all this turns out to be a fraud, the clients will be wiped out.

They objected and protested, but I said there was one crucial problem with Bre-X, which was the fact that the shares were listed on every single exchange *except* Forbes' "scam capital of the world"—having been burned before, the Vancouver Stock Exchange required all analysis to be done by fire-assay, no exceptions allowed, and Bre-X had only ever provided some newfangled cyanide-leach analysis. An hour later, the sales manager, an acquaintance from college, stormed into the war room to demand the reason for my speaking to the trainees.

They were in my space, after all, and I suggested that by learning when to sell, the trainees could spend less time prospecting for new clients if they would simply stop laying out or blowing up the last batch. It then occurred to me if I was so sure the Bre-X situation looked bad, I should just buy some puts. The stock was trading at maybe \$250 per share, down from the high of around \$280. The puts were incredibly cheap and based on my normal position sizing, I got a ton for almost nothing. I kept rolling them down until the stock was around \$5. Later on, when it was trading in the pennies, I bought a bunch, took delivery of the certificates, and distributed them as gifts.

What did you learn about yourself and about trading through that experience?

I learned that proprietary trading was a risk not worth taking. For example, a firm's desk traders needed no charts; they had order flow in their hands and worked the spreads. What I learned about trading, I did in my own account. Early on, I made a disastrous gold trade that became a chapter in Art Collins' book, *When Supertraders Meet Kryptonite*. Luckily, from

that episode I learned about position sizing, and never looked back.

Was one of the reasons you decided to quit the brokerage industry the desire to trade for your own account and keep all the profits, or was it other factors?

Our boss left to start his own firm. This was the year after my Bre-X trades. With money in the bank, I decided to go home to raise my five-year-old daughter. It was then that I set off on the road to where I am now with trading and investing.

You started and hosted IntelligentSpeculator.com in 1998 to help traders learn the real truths about the brokerage industry and trading that were not available elsewhere. You felt morally obligated to tell the truth about the industry. It seems you were always thinking about educating investors and traders as an undercurrent in all your endeavors over the past two decades. Was that website successful in meeting your goals and that of your subscribers?

I had been part of a big group chat at another website that went sideways, and started my own trader chat group to find others to discuss trading with. As it turned out, most people who came were looking for advice and I answered all of their questions, for free. At the time, I still had things like MACD and RSI on my charts, even though I knew not to rely on them for signals. At around the same time, Steve Nison's book on Japanese candlestick charting was gaining traction. That was the first time I actually looked at price action bar by bar.

Your first website morphed into TrendVue in 1999 and offered



I don't think it's possible to manage an investment portfolio by gut feel.

real-time coaching focused on daytrading stocks and S&P futures. Did most of your subscribers achieve their goals? If not, why not?


1999 was when stocks began to display extraordinary volatility while going up in price—upward crashes, if you will—to the point where a typical day's price range could be compressed into an hour. In order to maintain proper position sizing, we literally had to trade ever-smaller amounts or trade much smaller time-frames. Making that many decisions per time unit on an intraday basis was very difficult for subscribers. The feedback I received was that I was not able to help them deal with fear, which isn't surprising because their brain was right to tell them they were in danger. Hopefully, I prevented a bunch of bankruptcies.

How long did that website stay active, and when and why did you decide to close shop?

We did it for a couple of years during the peak of the dot-com bubble, after which people lost interest in daytrading.

Around that time, you were also on SiliconInvestor.com and worked with IQ Chart. Were your responsibilities focused on developing charting packages and their chatroom?

Due to a quick succession of mergers, SI and IQ Chart came to be owned by the same company, and so they thought there would be an audience for the charting program with me promoting it. The plan was to have me put together a set of indicators



and promote it at the site.

How did that work out?

That was the top for the dot-com bubble. When the market went bust, my guess is a lot of the Silicon Investor population took substantial losses. FINRA also established the pattern daytrader rule in February 2001, making it so that accounts with less than \$25,000 in equity were limited in how often trades could be made. This plus the bear market effectively ended the adventures of a lot of individual daytraders.

IQ Chart was spun off and purchased by one of the senior employees. We actually delivered the product and the partnership went on for a number of years. In the end, they were not in a position to improve the platform, and they made the decision to let the user base shrink until it was unprofitable and then they shut it down.

During the years 2003 to 2006 you were a young-ish mother of a 3- and 9-year-old, trading S&P futures from home. You became proficient at reading and trading bar and candlestick patterns as well as market sentiment. In 2007 you traveled overseas to expand your knowledge of monetary policy, macroeconomics, and history. What was your objective and how did it enlighten you regarding the world and the markets?

Traders usually think about technical versus fundamental analysis of individual stocks or commodities. Investment managers, on the other hand, think about allocating assets based on a financial model (such as CAPM or later on, risk parity) versus “global macro” strategy where PhD economists peer into their crystal balls to make bets on the future. I happened to become friends with a high-profile economics blogger,

an academic in Vienna who needed some help to write the English version of his master’s thesis.

It was the perfect introduction into the world of central banking, hedge fund conferences, and econometrics, which the IMF defines as using “economic theory, mathematics, and statistical inference to quantify economic phenomena.” Most importantly, I learned about exploratory data analysis, a topic seldom mentioned in the world of technical analysis.

On March 11, 2009 you wrote a market commentary that was published by Jason Kelly on SeekingAlpha titled “How To Know A Bottom When You Don’t See One” in which you identified the market bottom. How did the timing of that article work out?

I had identified this sort of thing before at tops, such as in QCOM in January 2000. Spike tops and bottoms are not that difficult to see but they must be confirmed by sentiment. After a prolonged downtrend and a scary close on a Friday, an interviewer will ask every guest on TV the same question: “How much lower will it go?” and when the expert technical analyst projects an ever-lower price that works out to another big percent downward move, that’s when the bell goes off. The process works in reverse for uptrends.

You also wrote an article that appeared in the September 2009 issue of this magazine in which you provided an assessment of the March 2009 ultimate bear market low. In that article, you wrote: “How was it possible to accurately analyze and capitalize on these chaotic market conditions? Actually, it is easier than it looks because of a simple paradox. Compared to the difficulty of timing the market on a daily basis, a bottom that

forms after a downtrend (or a top that forms after an uptrend) has already been in place for a long time—especially in periods of high volatility and uncertainty—is relatively straightforward.” Any additional thoughts about that turbulent market?

I think it was Justin Mamis who said that tops take time, but bottoms can be made in a day. There is a big difference between seeing and trading, and even more between how to trade tops and bottoms.

You launched InVivoAnalytics in late 2007 to support trading tools you developed for eSignal and TradeStation. Are they still available on those two platforms and can you describe their purpose?

The academic research I was privy to in Vienna was basically a crash course in quantitative methods applied to nonstationary data, and when I evaluated the classic technical analysis indicators, I realized why none of them had ever worked particularly well. The fact is they only worked by coincidence, and the human mind being what it is, saw patterns that weren’t actually there. For quants, there is such a thing as first principles and stylized facts of asset price returns. The bottom line for traders is to know that volatility is always bad, and I continue to refine my work in this area using TradeStation.

For investing your own money, you developed model investment portfolios that you also shared with your subscribers. How have those models performed over the years?

The objective of investing is to compound capital efficiently, which means drawdown must be as small as possible. In directional trading, the win–loss ratio is typically poor, so the trader must be prepared for a

string of small losses and the resulting drawdown before hitting a home run with a big trend trade. In order to reduce drawdown in an investment portfolio, I use volatility measurements to calculate position size and then limit drawdown by raising cash when the portfolio's overall volatility goes beyond a certain point. The models have done well over the years because as volatility rises, we tactically cut exposure. Of course, there is also the question of deciding what goes into the investment portfolio—the strategic asset allocation.

In 2018 to 2020, your interest in macroeconomics resulted in a three-part article you published for your subscribers titled “How The Bond Market Ends.” What were your main points and did you foresee the 2022 bond market debacle?

Even though the U.S. twin deficits and national debt problems were well-known, it wasn't until a few months into 2018 that I observed treasuries failing to do their job. To my mind, there are three types of risk: diversifiable risk, systematic market risk, and unpriceable risk. The start of the trade war had the potential to upend the role of treasuries as a recycling mechanism, first for Saudi petrodollars, and later on, for the trade deficit with China, used to finance U.S. deficit spending. The end of this paradigm was simply not something I could put a price on, and if treasuries could no longer serve the function as a “flight to quality” asset that insulated stocks during downturns, what was the point of owning them? In 2019 I updated the models with shorter-duration bonds, and before the 2022 debacle, I had models with no bonds since the macroeconomic and geopolitical situation just kept deteriorating.

You have spent considerable time understanding the nature of volatility and measuring it properly. Applying the knowledge you have gained from this research, how has it contributed to your trading success?

Volatility is one of the most-studied empirical properties of what academics call asset price returns. By quantifying volatility, we can calculate position size or asset allocation, reduce systemic risk to an investment portfolio, and determine risk-adjusted performance. Volatility happens in clusters and is highly correlated with volume. We can also use these stylized facts to rank and sort entire watchlists of stocks to find the ones that are of interest. To me, volatility is simply a succinct measurement of the herd stampeding in and out of stocks and markets.

How should volatility be interpreted and used to make market timing decisions?

The March 2009 low was a good example of how a spike in volatility can be used to help identify bottoms, but in my opinion, volatility is more helpful as a metric, rather than as an indicator. Because I started off reading chart patterns and, later on, visually trading in real time, it's second nature to think of the action of price bars as expansions and contractions in volatility. In my experience, I found many undercapitalized traders go for intraday timeframes that are too small and too illiquid, not to mention dangerous. The counterintuitive solution is to use larger timeframes, like daily charts, and trade smaller positions.

Any number of websites provide historical, realized volatility for free. For example, the 60-day annualized historical volatility for NVDA is

Defending against drawdown does not require us to make all-or-nothing decisions.

0.4149 as of September 14, 2023. Using the rule of 16, we divide 41.19% by 16 which gets us 2.57%. Multiply that by the September 15 closing price of \$439.00, we can expect NVDA to fluctuate around \$11.30 per day. This number can be used to help calculate position size based on the trader's bankroll.

The Nasdaq trading day is 390 minutes long: dividing \$11.30 by 6 bars (of 65-minutes each) means the average bar should be about \$1.88 tall. If for some reason the bars are much shorter than that and barely overlap, volatility has decreased and it's time to move to a larger timeframe. Some indicators such as ADX serve a similar purpose, but quantifying volatility down to percentages seems to be more practical and can be directly used to compare against another stock.

You are a firm believer in using a mechanical/systematic trading approach with appropriate bet sizes, and defending against excessive drawdowns. Did that approach work out well for you?

Yes. I don't think it's possible to manage an investment portfolio by gut feel. Defending against drawdown does not require us to make all-or-nothing decisions. It's a matter of calculating how to divide the pie and how much cash to hold. For the trader, trading smaller size is always better than trading too large.

My understanding is that when you were trading, you used two basic charts—a candlestick chart and a bar chart with volume. You

draw trendlines and look for breaches, as well as pattern breaches. You observe, but don't trade, patterns such as triangles, wedges, and massive head-and-shoulders because you don't want to get in there and be trapped. Can you expand a bit on your approach?

If you plot the one-month or three-month volatility on a daily bar chart and squeeze the bars together, these patterns will stand out as areas of contracting volatility. In fact, we can use declining volatility to help us draw lines around these trading ranges and the patterns will identify themselves. It might be more profitable to ride a portion of a trend rather than repeatedly position for a breakout.

Could you provide a chart example using volatility and walk us through how it helps you make decisions?

Let's look at the semi-log daily chart of NVDA (Figure 1) with data to September 29, 2023. Outperformance against the S&P 500 index on a risk-adjusted basis is shown by the cyan-colored price bars, while underperformance against the benchmark is colored magenta. The 50-day moving average is there because everyone uses it. Most traders probably have that line drawn below all the price action above the May 2023 gap up. The close below the "neckline" on September 21 did not lead to an immediate breakdown; instead, it predictably bounced upward after the breach, trapping some breakout players.

At this point, the bounce is six days old, trading below the 50-day moving average, which acts as "overhead resistance." The trader lies in wait: *If*



FIGURE 1: NVDA SEMI-LOG DAILY CHART. On the right side of the chart, NVDA moves above the trendline for two days after falling below it for six days. Many traders got shaken out, and then the price reversed upward.

the uptrend has ended and a reversal is in place, *then* the bounce should fail and head down from here. One potential entry point to initiate a short position would be on the break of a two-day low, and then use the cyan-colored dots above the price bars as a trailing stop-loss.

When it comes to reading individual price bars, my best recommendation for a book about this is William Dunnigan's *One-Way Formula For Trading In Stocks And Commodities*.

On your typical chart layout, you use moving averages, candlesticks, patterns, and trendlines for support and resistance levels. Is that more or less a complete picture of your charting approach?

I've looked at candlestick charts for so long that I can "see" them on bar charts. Candlesticks take up room, which can make it difficult to identify patterns easily. For example, my preferred configuration for a daily bar chart includes volume, the 21- and 63-day realized volatility, and the 50-day moving average, since everyone else is watching it.

You are not a fan of using the most popular technical indicators. Why is that?

At the office, everyone used the standard indicators and little has changed since then. When I look into the actual calculations, it's not clear to me what the rationale is for these indicators. This is coming from a person who bought and read all these books by the original authors.

What charting software and brokerage firms do you use in your work?

I use TradeStation for charting, I download eSignal data for spreadsheets, and I execute trades with Interactive Brokers.

You capitalized on observing pattern or setup failures to make your move. You felt that if a market doesn't go where it should, then you concluded that some traders will be on the wrong side of the trade and need to exit the trade. That is good information to capitalize on, right?

Linda Bradford Raschke used to do a free day in her S&P futures chat room every month. She used the CQG charting platform and liked to apply ADX (average directional movement index) to intraday charts. The thesis behind the ADX, a J. Welles Wilder creation, was that it somehow measured volatility and so it could be used to delineate areas of consolidation. I noticed traders always seem to be fixated on positioning for breakouts and spend a lot of time betting on the direction. If the breakout goes against them, not only do the existing positions need to be closed, but new positions are likely to be initiated, which means there are twice the orders going in the opposite direction,

giving the move impetus and thrust. The process repeats, which can often be seen as a triangle that just keeps getting bigger, and when all these traders are finally exhausted, the real trend starts going.

You prefer looking for fake breakouts and then taking advantage of them. Briefly, how did you do that?

I know of no method of determining if a breakout will be successful or not, so the way I prefer to do it is simple. For a triangle, a wedge, a head-and-shoulders pattern—basically any large consolidation—just wait until the breakout happens on volume, then get on the *first* pullback, especially the small and scary two- to four-bar bull or bear flag; sometimes, there's only a tiny pause, a single "inside" bar after a thrust in the direction of the breakout, to capitalize on failed breakouts of a recent high or low. Victor Sperandeo called it the "2B" in chapter 7 his book, *Trader Vic—Methods Of A Wall Street Master*.

Is there any difference in today's trading methods as compared to two decades ago?

For trading patterns, no, because human nature never seems to change. We know from Kahneman and Tversky's *Prospect Theory* that human nature operates to maximize the *chance* of a gain, not the *actual* gain. For example, traders keep taking "stabs" inside consolidation patterns rather than getting on board on the first opportunity of a new trend. When it comes to technical indicators, all I can say is the same old ones seem to pop up on most charts. Let's hope the quants have something better.

What is your view of the difference between a retail daytrader versus a professional daytrader?

If the trader uses his own capital, or isn't paid by a fund to do it, there's

probably not that much of a difference between a "retail" versus a "professional" daytrader. Firms don't have titles to that effect. Personally, I think it's a myth that the average person can trade for a living. The good news is that almost anyone can accumulate a decent amount by investing over time if they put their mind to it by capturing and compounding the total return which includes dividends, rather than just the price return from short-term trading.

If an individual was interested in becoming a daytrader in 2023, what would you tell them to be aware of, as compared to the 1990s to early 2000 timeframe when you daytraded?

I would probably tell them what I've already spoken about here, which is that nobody in the investment industry trades for a living. Brokers earn a commission. Market makers get a spread. Fund managers charge management fees.

Do you still believe that a trading journal is helpful, at least for beginning traders, to track their results, as well as to review and learn from their mistakes to become successful?

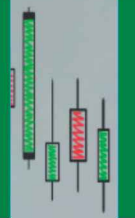
I think it's a good idea to practice paper trading until you have your analysis and execution locked down.

You once said that "trading should never be used as a sole source of income." Do you still hold that view today?

Yes, because none of the industry professionals do it. They don't worry about how to make rent or pay the next mortgage payment.

Over time, you pivoted more to

It might be more profitable to ride a portion of a trend rather than repeatedly position for a breakout.



investing than daytrading. What happened to change your mind?

After the dot-com bust, volatility completely dried up, making daytrading uneconomical in terms of the time commitment. Also, as one's capital increases, it becomes more efficient to deploy it as an investment portfolio. The best thing I ever did was to devise my own asset allocation algorithm, one that could put lots of dollars to work.

Can you walk us through the components of that algorithm?

While there are a number of ways to measure and quantify price volatility, the principle is always the same. If Asset A is twice as volatile as Asset B, then you will want to own one unit of Asset A and two units of Asset B. You could take this one step further by targeting volatility on a portfolio basis to mitigate risk. For example, if the price volatility of the portfolio that contains Asset A and Asset B exceeds 10 percent, then raise cash. This practice would have safeguarded capital during 2022 when both stocks and bonds went down together.

As we speak, you have just launched your latest endeavor, ActiveInvestorMag.com, on the 25th anniversary of your first market-related website. Why did you launch it, and what are the benefits to subscribers?

I would like to curate useful information from credible sources for those interested in trading and investing. There is so much information out

there it's difficult to figure out where to start, what's important and why. As a public service, I plan to publish a model investment portfolio that anyone can put to use, regardless of the amount of money being invested.

Do you have any plans or interest in writing a book about your trading and investing approach?

I started on one, but I'm not sure people even bother to read anymore. From the popular stock market apps I've checked out, it sure seems people just buy the names they know and hope for the best. Some of these apps don't even bother to display price bars.

Since it's mid-September 2023 as we speak, what is your take on the market's outlook for the remainder of the year?

Bloomberg reported in July that the cost of servicing government debt reached \$652 billion, which was up 25 percent in the first nine months of the fiscal year. Higher interest rates drive up the cost of debt service, something we haven't seen in decades. At some point, the powers that be might quietly concede that 5 percent inflation is the means to devalue the debt. The country is at a crossroads; political instability and partisan gridlock will only exacerbate the U.S. debt spiral. This doesn't exactly look bullish for bonds, and with cash now yielding more than stocks, I can see why market participants might book some profits.

What is your insight on whether or not the "magnificent 7" can continue to outpace the market in the next decade and beyond or will there be other stock replacements along the way?

At the peak in March 2000, the top ten were MSFT, INTC, CSCO, QCOM, ORCL, JDSU, AMGN,

SUNW, VRTS, and VSTR. As of September 15, 2023, the top ten are AAPL, MSFT, NVDA, AVGO, ADBE, CSCO, AMD, INTC, INTU, and TXN. Because the Nasdaq-100

index is a modified market capitalization-weighted index, adjusted quarterly, the no-brainer way to own the future winners is by owning the Nasdaq-100 ETF.

Are there any concluding remarks you'd like to make?

Quantifying volatility allows us to gauge risk on an objective basis, to determine position size and calculate stop-losses; we can buy and sell incrementally rather than making all-or-nothing decisions. We can even incorporate volatility into stock picking by constructing an indicator of risk-adjusted returns against a benchmark such as the S&P 500, coming full circle from the days of the William O'Neil chartbooks. As someone who spent the first half of their time in the markets focused on trading based on price action and investor sentiment, I have to say that the second half focused on studying volatility has made making decisions completely stress-free.

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