Diary of a Professional Commodity Trader - Lessons from 21 Weeks of Real Trading
by Peter Brandt
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Book Review and Recommendation

Diary of a Professional Commodity Trader is an excellent book and I highly recommend it.

The book is divided into two halves - the first half is an explanation and summary of the Factor Trading Plan which Peter developed and has been refining for 30+ years; the second half is a trade diary showing charts and describing every entry signal Peter took from December 2009 to April 2010, which amounted to about 70 trades. Peter trades spot currency, metals, ag futures, T-Bonds, etc., during the time period covered by the diary. The book presumes the reader has at least passing knowledge of currencies and trading (which is welcome relief from the many books which start at ground zero). Peter uses classic chart patterns which the reader is also assumed to have a basic understanding of, although you don’t need to be an expert by any means (I am not). The appendices include a list of trades in a table format, a quick reference to the charts presented in the book, and a good list of recommended resources.

The information in first half of the book gives great insight into Peter’s process and trading plan, including: trade identification, trade management, psychology, position sizing, record keeping, and other lessons learned from a long career in speculation. This information could have been book on its own, but it is even more fascinating when paired with the diary in the second half of the book. The diary records good trades and bad trades and shows Peter struggling with discipline, patience, exit timing, missed signals, and interpreting the right-hand side of the chart, as well as detailing wins and reminders of lessons learned many times before.

I will incorporate many elements from the book into my own trading, and I plan to revisit the text in the future. A summary of major lessons learned and some quotes from the book are detailed below.

Audience – Experienced traders and relative newcomers would benefit from this book. In particular, traders interested in position trading and longer term swing trades would like it, but many of the concepts can be applied to all time frames. The trading plan summary and diary format are great for learning process, even if your style of trading is different than Peter’s.

Title – The title, Diary of a Professional Commodity Trader, is a good description of the content, and if anything it undersells the book since there is much more than just the diary. (I find that many books have titles that are created by marketing departments to shift units and don’t fit the content).

Disclosure – nothing to disclose, I do not know Peter and have no affiliation with him nor Factor Trading LLC. I bought the book myself on Amazon.co.uk. If you go the “Gift Shop” section of stoictrading.wordpress.com you can click through to Amazon.com or Amazon.co.uk to purchase it.
Lessons Learned or Reinforced in Diary of a Professional Commodity Trader

Trade Management:

- The book includes descriptions of simple but effective management tools like the Last Day Rule, Retest Failure Rule, Trailing Stop Rule and Target Identification.
- Using the same timeframe to manage a trade as you used for entering the trade.
- Donchian Weekend Rule - decisive moves into new high or low ground on Friday are likely to continue on Mon/Tues of the next week.
- Brandt Weekend Rule – never take a losing trade home over the weekend.
- Peter says that you should look at the weekly chart of a specific market no more than once each week; the daily chart of each market no more than once each day; and not to pay attention to intraday charts unless it is to set money management protective stops on entry orders that were executed.

Trade Identification:

- The book suggests that trade identification is the least important aspect of a trading plan, and yet it is where most traders spent most of their time and effort. It describes how process and risk management are more important to trading outcomes.
- Peter has a strong preference for horizontal SR lines rather than slanted/diagonal lines.
- Triangles are not valid when prices work too far (more than 2/3rds to 3/4ths) to the apex.
- Make a chart prove itself, do not lead a breakout.
- Do not chase a missed signal - there will be trading opportunities next week, next month, and next year. Chasing signals can lead to other serious breaches of trading practices.
- Avoid patterns of less than 6-8 weeks in duration (!).

Record Keeping:

- Keep a record of patterns missed so that they are more recognizable in the future.
- At the end of a trading period, ask: what modifications to a trading plan, rules and guidelines would have improved performance? Then ask: do these modifications simply reflect an optimization of recent months, or do they have the potential to improve future performance?

Psychology:

- The battle to profitability is with one’s self. Successful trading is learning what to do and how to do it and then overcoming one’s emotions to get “it” done (discovering the “it” is the challenge for traders, and the “it” is different for everyone).
- Trading dilemmas never end. You can either accept this, work at it for a lifetime and enjoy the process and its required discipline, or you should quit now.
Quotes from Diary of a Professional Commodity Trader

p14. “Consistently successful trading is founded on solid risk management.”

p14. “Successful trading is a process of doing certain things over and over again with discipline and patience.”

p31. “As many as 80% of my trades over shorter periods of time will be unprofitable. The probability of my very next trade being profitable is less than 30%.”

p34. “More often than not, a market will defy what its chart structure implies” [but Peter remains a dedicated, profitable and long term chartist].

p38. “Boundary lines [i.e. trend lines] do not need to be redrawn to accommodate [intraday single-event] out of line movement.”

p41. “My experience is that there are far more false or premature breakouts of slanted chart lines than in the case of horizontal boundaries.”

p129. “Normally I do not trade trend-line violations. Trend lines fall into a category of chart development I called diagonal patterns. Yet, the more a market tests a trend line, the more valid-and tradeable-an eventual violation becomes.”

p41. “[After a pattern break out] I generally abandon any position that has a significant return to the pattern.”

p43. “I believe that my net bottom line as a trader would have improved if I had exited every trade that closed at a daily loss.”

p142. “My net bottom line over the years would have improved if I had exited all trades that closed against me.”

p47. “As a general rule, the minimum move following the completion of a chart pattern should be equal to the height of the pattern itself, although the exceptions to this rule are numerous and complex.”

p53. “As a general rule, I will attempt one pattern recompletion per major pattern. After that, I will count my losses and go shopping elsewhere.”

p60. “Trades that are the emotionally toughest to execute are often the most financially rewarding.”

p128. “Trades that are emotionally easy to execute are often trades consistent with the conventional wisdom of the marketplace. Conventional wisdom is usually wrong.”

p74. “While chartists often attempt to jump the gun on a pattern, markets usually make it abundantly clear when it is time to climb aboard.”

p80. “It is important for a trader to use similar time frames to both enter and manage a trade.”

p88. “The more I follow the markets during the trading hours, the more apt I am to make an emotionally driven decision to override my trading plan...emotional reactions to intraday trading will be detrimental to my net bottom line over any period of time.”

p102. “The biggest temptation after a premature stop-out is to get right back in before receiving another solid signal. Getting into this cycle throws discipline and patience right out of the window.”

p117. “I cannot allow myself to be stressed out whether a certain trade was profitable or not. Profit cannot be the direct focus of my attention because I have no control over the outcome of any given trade. Order entry is the only thing I can control. My challenge is to maintain the patience to wait for my pitch and the discipline to swing when my pitch is offered. Swinging at pitches outside of my sweet spot is the single biggest source of trouble for me.”
p117. “I am constantly studying and analyzing my trading performance for two major reasons: to determine if my trading plan is in sync with the markets and to determine if I am in sync with my trading plan. ...either can represent a real problem.”

p119. “Every successful trader I know has developed a criteria for appraising trading performance.”

p152. “Breakouts should be decisive in order to be valid. Drawing tight pattern boundary lines is an invitation to get sucked into a false or premature breakout.”

p154. “As a trader, I need to constantly remind myself that I cannot afford the luxury of being bullish or bearish. Bullishness and Bearishness represent an emotional commitment. I need to limit myself to positions. Opinions don't matter.”

p156. “Trade identification is the least important of all trading components. The trading process itself and risk management are much more crucial components to overall success in trading operations.”

p157. “The most profitable trades are those that breakout and never look back.” p165. “If at first you don’t succeed, be ready to lose and lose again.”

p160. “Trading dilemmas never end. A trader never solves all the issues standing in the way of greater success.”

p166. “The best and largest patterns are commonly comprised of many smaller patterns, mostly failures.”

p173. “The battle to profitability is with one’s self. Successful trading is learning what to do and how to do it and then overcoming one’s emotions to get “it” done (discovering the “it” is the challenge for traders, and the “it” is different for everyone).”

p189. “[Trading plan] flaws are never visible during the good months and good years. Good times provide cover for the deficiencies of a trading plan.”

p194. “Triangles are not valid when prices work too far [more than 2/3rds to 3/4ths] to the apex.”

p197. “The single most important price of the day is the closing price, posted mid-afternoon each day. This is the price at which position traders, as opposed to day traders, are willing to hold a position overnight. Even though I often enter and exit a position intraday, the closing price is the only one that really matters. Everything else is noise.

p229. “Make a chart prove itself. Do not lead a breakout.”

p230. “Do not chase a missed signal. There will be trading opportunities next week, next month, and next year. Chasing signals can lead to other serious breaches of trading practices.”

... end ...

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