

>: How a Pro Avoids Crushing Losses

Tuesday, January 27, 2009 | Chris Rowe

I just hung up the phone with Teeka Tiwari (I'm writing this Monday night at 8:45pm), because I wanted to ask his permission to share one of his Point and Profit trade alerts with you. Reason being: Teeka made a serious power move two weeks ago, and it would be a major disservice to you, the Tycoon reader, if I let it pass without using the event to make you a better trader.

It's funny how some of the greatest trades that I can remember making or witnessing were actually trades that ended in losses. This was one of them. This "power move", while ending up in a small loss, should serve as one of THE MOST valuable trading lessons I can ever point to.

And I don't want to make this all about Teeka (I mean the man has shown hundreds of thousands of traders how to get rich, but the truth is there are some principles that are hardly possible to teach). One of those principles is trading based on fact, without letting your human emotions get in the way.

Let's examine the key points here, and try to use this story as a case study that sticks in your mind throughout your trading/investing life so that when you find yourself in the same situation, you can navigate it properly.

Here's the short version of what happened ...

On January 12, 2009, I saw that Teeka put out a trade alert telling his *Point and Profit* members to buy call options on Caterpillar (the 20011 January \$30 calls to be exact). I don't look at all of his trade alerts, but I saw it and it peaked my interest. I called him for some insight:

Ring-ring-ring

Teeka Picks up: "This is T"

Chris Rowe: "Teeee - Double!"

(That's what I call Teek. I took it from the spelling of his name: T, double E, K - becomes "T-double". What can I say, I'm quite corny.)

Teeka Tiwari: "What's up Christopherson?"

(Not sure when that started or why, but he calls me "Christopherson".)

Chris Rowe: "I see you recommended getting bullish on Caterpillar. What are you seeing?"

Teeka Tiwari: "I think Caterpillar would be a key player to benefit from the government stimulus packages coming which are focused on building projects, infrastructure etc.. Obviously Caterpillar would benefit from massive global government spending since they build, sell and service the bulk of the huge earth moving machines."

Chris Rowe: "So if you're looking to have bullish exposure, this would have to be one of the players to jump on then?"

Teeka Tiwari (said something to the effect of):

"Buddy, this market has been so crazy that ANYTHING can happen. But this stock looks oversold short-term, it can be very volatile short-term, and I think long-term this has got to outperform the market whether the market is up or down. Besides, I feel safe buying the call options that expire in year 2011, and I'm highly confident that this call option will beat the market's long-term return - BY-FAR!"

Chris Rowe: "I hear you. Okay, thanks T, I'll let you hop".

Teeka Tiwari: "Okay buddy, take care".

Now remember, that was January 12.

Just 72 hours later, on January 15, I get a call from a friend of mine, a professional trader (we'll call him Tom) who subscribes to *Point and Profit*. Since angry traders tend to speak in an language called "potty-mouth," I will clean up the conversation for you, but it went something like this ...

Ring-ring-ring

Chris Rowe: "What's up Tommy?"

ago!"

Chris Rowe (laughing): "What - that's too long-term for you? You're a trader right?"

Tom: "It's not funny gosh darn it - what the heck is his deal? Yesterday he was super bullish and today we're out?"

Chris Rowe (trying hard not to giggle while talking):

"I really don't know what happened. This is the first I am hearing about it. Hey, it could be worse ... It could have been me who lost on it."

(To those who lost on that trade - please understand: Sometimes, especially when traders talk with fellow traders about a loss, there is nothing else to say about it, except to try - typically in bad taste - to laugh at it. I'm sure some of you know what I'm talking about.)

Tom: "Okay, I'm hanging up on you."

Chris Rowe: "NO WAIT - I'm sorry. Listen, as I said when I, personally, emailed you JUST LAST NIGHT: The strongest market indicators just started pointing to supply taking control. The internal market is showing more and more stocks moving to sell signals. I'm sure that had at least something to do with Teek's call."

Tom: "Yeah, I know. He said the sector's (Machinery sector) BPI just put in a bearish signal, and so did the NYSE BPI."

Chris Rowe: "Um, yeah... Soooo, why are we on the phone again?"

Tom: "click".

I know most of our readers are individual investors with nobody to answer to but themselves (and perhaps their family) when it comes to the trades they make. Think about how many times you've been 150% convinced that you were dead on in the reasons you took a stock or option position, only to see the position go the wrong way.

The frustration is painful. You knew you were right, but the market wasn't working with you in the short-term. You sat there and struggled with your two options: either to sell at a loss - even though you knew you were right, or to hold on and wait for the short-term noise to disappear and for the more sensible "big picture" players to regain control.

If you think THAT decision is difficult, try making it on stage in front of thousands of people who are trading on your advice. Try and imagine thousands of people, each with a slightly different point of view, staring you down as you hit the send button telling them all to exit the trade. And all this, just 3 days after you rant and rave about what a great play this was. For most people, that's a lot of added pressure.

I worked on Wall Street for quite a while and I've seen traders with 50 years of experience lose fortunes because they couldn't bring themselves to cut their losses because they weren't just invested financially, but they made the common mistake of being emotionally invested in a position. I've been there - we've all been there.

Well let me tell you what - Whether it was his hedge fund, all P&P members or just his own account holding the call option, T-double would have made the same exact decision to exit the trade. And that's something that every trader can learn from.

Keep in mind, the buy price was \$16.00, and the sell price was \$13.00 just 3 days later. Today (Monday) the call was 30% lower at \$9.28 after Caterpillar announced more job cuts and projected weak earnings. Teeka had no inside information - but technically, he saw all he needed to see - and he hit the eject button.



indicators speak - you listen. There's no looking back once you exit the trade based on those market indicators either. If instead, he had sold it, only to see the price of the option trade 30% *higher*, I know he would feel no differently than he does now.

The moral of the story...

Any great trader goes through hot periods and cool periods, and if any trader denies that, **THEY ARE LYING TO YOU**. But in the 15 years I've known Teek, he's been one of the few traders I've seen with the ability to leave emotion at the door when he enters his office. And that's what keeps good traders, and those who listen to them, in the game.

?Profit from the Trend?



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