

The psychology of money

BY ACTIVE TRADER STAFF

Name: John Hamrick
Age: 44
Lives in: Charlotte, N.C.

After 10 years working in sales and marketing in the computer industry, in 2003 John Hamrick shifted into real estate investing. “I was going to flip houses,” he says. He and his wife had experience buying, renovating, and selling homes they lived in, but it was never a full-time business.

Hamrick attended a real estate seminar and at one point got stuck in a stock investing session that was taking place between two real estate lectures.

“The guy started talking about the stock market and I was intrigued that there were so many tools,” Hamrick says. “I thought, this might give you a fighting chance.”

Hamrick did pursue real estate — he continues to manage several properties today — but he also followed the trading path. Initially, he signed up for a two-day stock trading seminar and began studying on his own. “I was so fired up,” he remembers. “I was spending 16 to 18 hours a day studying and watching markets.”

Hamrick initially traded options, but struggled to find consistent profitability. He compared his early attempts at trading to playing golf.

“You go out there and get abused, but that one good shot makes you want to keep coming back,” he says.

Despite his motivation and hard work, Hamrick says he didn’t “understand the importance of time frame or money management. I didn’t give my trades time to evolve. I watched them too closely.”

He continued seeking out mentors and eventually took a class with trading coach



Robert Deel. “He’s good,” Hamrick says. “It is just a matter of finding someone who fits your style.”

He switched to swing trading individual stocks and began to experience more success.

He says time decay and leverage were no longer issues when he stopped trading options and started focusing on individual stocks.

Hamrick attended more seminars and continued his on-the-job education, and he eventually expanded his trading to include futures, options, and stocks.

A psychology major in college, Hamrick has always had an interest in human nature.

“It helped me in trading because human nature is really amplified when you talk about money,” he says. “There are a lot of emotions tied with money.”

Hamrick stresses the importance of “learning your own psychology, your own foibles, and your own reactions to how you lose money. If you can’t decouple your emotions from your money, it makes success that much harder.”

Hamrick says he handles that by being “constantly vigilant and always aware of risk.”

Trading method: Hamrick now trades full-time, putting on roughly 20 to 100 trades per month — intraday futures trades as well as longer-term positions (up to several months) in individual stocks. He focuses primarily on technical factors and uses essentially the same approach for both types of trades.

Hamrick notes that understanding time frame was the “cornerstone of his trading. If I’m trading futures, I have a shorter time frame and have to be a lot more aware of risk and more disciplined,” he explains.

His day trades tend to last several minutes to several hours. He focuses on the E-Mini Dow futures, trading primarily with

Trading setup

Hardware: PC with 2.21 GHz processor and 2.75 GB RAM; two 24-inch flat-panel monitors

Software: TradeStation

Internet: Cable

Brokerage: TradeStation

Best trading books, Web sites:

Technical Analysis Using Multiple Timeframes by Brian Shannon

Unexpected Returns by Ed Easterling

Trading in the Zone by Mark Douglas

The *Market Wizards* series by Jack Schwager

StockTwits.com

CrestmontResearch.com

Hussman.net

MebaneFaber.com

the trend and using a five-minute chart to time entries and exits. He uses 15-minute, 60-minute, and daily charts for trend identification and then looks for pullbacks that converge with support or resistance, trendlines, and Fibonacci levels to pinpoint entries.

For his day trades, Hamrick uses a fixed 20-Dow-point initial stop loss and a trailing stop first at 10 points and then discretionary, which can include Fibonacci extension levels.

Worst trade: In 2006, he went long ICE stock on a pullback. “I got spooked by a bearish daily candle pattern and exited before the close because earnings were coming out the next day,” he says. Although he actually made a small gain on the trade, Hamrick says he considered it a loss “because I didn’t let it run.” This trade, he says, represents his “tendency to be tight fisted. I value money too highly and that made me put my stops too tight and I didn’t let my profits run.”

Became profitable when: “I learned to align myself with the trend, especially when multiple time frames line up.”

Best thing about trading: “The freedom and flexibility to work when and where you want.”

When not trading: Spends time with wife and children, plays golf, and plays guitar. 🎸

KC For more information about the following concept, go to “Key concepts” on p. 76.

- Fibonacci extension levels