

INTERVIEW WITH GARY HART OF TRENDFINDER TRADING SYSTEMS

Why, in your opinion, has the FedSwing performed so well?

FedSwing is based on exploiting two stock market characteristics. The first is the short term mean reversion tendency of stock indexes, and the second is following the flow of liquidity provided by the Federal Reserve's open market operations. Since there has been a lot of Fed operations, there has been a lot of fuel to provide great performance for FedSwing.

Do you have any advice for those who trade your systems?

Do not overleverage. I know that many subscribers do this, and with great results this year (2013) they have grown their accounts tremendously on a percentage basis. However there will be a time when there is a string of losing trades that could take them out of the game. More specifically, understand that there will be larger drawdowns in the future, there will be longer strings of losses in the future, and past performance is not necessarily indicative of future results. Determine your risk control parameters and base your position sizing on that. Don't base your position sizing on profit, base it on risk.

Have a plan for when to stop trading the system or portfolio. For example, one of the common risk measures is maximum drawdown, and you could base your position sizing based on the maximum percentage drawdown you are willing to accept to continue trading the system/portfolio. Say you want to trade a portfolio of systems with a \$50,000 account and are willing to risk up to a 25% drawdown. Since 25% of \$50,000 is \$12,500, you are willing to endure a drawdown of \$12,500, and if the drawdown exceeds \$12,500 you will stop trading. You would then select

a portfolio that has a maximum historical drawdown of less than \$12,500. There will likely be larger drawdowns in the future, and that may or may not indicate the system/portfolio is no longer working, but this is a simple plan for controlling your risk.

Do you have any special advice for new traders that you wish you'd had when you were getting started?

There is no secret formula or holy grail for profitably trading in the markets. I know it's a cliché, but the holy grail is you. Read a lot and learn about yourself. Definitely read the market wizard books by Jack Schwager and several books on trading psychology. But only do this if you are really passionate about trading – profitable trading is not easy and the odds are against you. If you do achieve it, it will probably take you many years and lots of work. If you really want it, and are willing to do the work, then I recommend completing Van Tharp's Peak Performance Course. It is a very extensive course that will prepare you for successful trading better than anything else I know. It is not an easy course, but if you do the work I think your odds for being successful skyrocket.

What do you think are the hot markets this year?

If the Fed and other central banks starts tapering, and especially if they stop completely, the stock market could have much more volatility than the past few years. With the proliferation of oil and natural gas in the US, those markets could be very active as the world continues to adjust to this new supply. I'm sure other markets will be more active than typical, but since I focus on stock indexes I'm not as familiar with them.

Do you only trade via a mechanical approach?

For clients I only trade with a mechanical approach. In my personal accounts I trade primarily mechanically and also daytrade with a discretionary approach.

Do you prefer any particular type of trading (e.g. day-trade, long-term) and if so, why?

For most of my trading lifetime I only traded intraday. This was for two reasons: I didn't like the risk of holding overnight, and I liked the action of trading (I wanted to be in the market trading). As my trading matured the typical trade length went from being as short as a few minutes to maybe only 1 trade per day per system. Now I've found a sweet spot of combining swing trading (average trade length of 1 week with 1-2 trades per month for each system) and low-frequency intraday trading (5-10 trades per month per system). The swing trading systems have provided excellent profit in low volatility markets, and the intraday systems have thrived during volatile markets.

How do you prepare for your trading day?

I typically get up 1-2 hours before the stock market opens. If I have any open trades, the first thing I do is check the markets, positions and open orders. I do a short meditation (around 5 minutes) to get myself grounded, mind clear and relaxed. I do this without fail – I do not allow myself to start the trading day without this short meditation. Next I look at what the stock markets are doing, and if there have been big moves I'll research what the probable cause was. Most days I then go to the gym and get back into the office around when the stock market opens. Then I start the business of trading.

Are you working on any new projects?

Yes. I have received several requests for intraday systems and to manage accounts exclusively with intraday systems. I am working on creating several intraday systems to fulfill these requests. I am also

working on a program that combines swing trading and long-term trend-following to be used on futures, forex and ETF's.

Whom do you most admire in the futures trading industry and why?

Larry Williams for the impact he has had on futures trading and the methods he has shared. Van Tharp for all the great research he has done and the great books and courses he created. Jim Simons for the incredible success he had with quantified trading; he is an inspiration. And all of the bloggers that share great insights and market viewpoints.

How did you get into trading systems development and what led to your particular approach to the markets?

I got involved in futures trading because I wanted to use my money to make money in any economic environment (not just bull markets, etc.). I started with a home study course and read lots of books and magazines. Coming from an architecture and engineering education, I wanted to design the way I traded. Creating mechanical trading systems was the best way to express that. I have a very logical mind and am also creative, so developing trading systems is a perfect fit for me to do something that uses my best talents. For the first few years of trading I used trading systems I read about in books. In early 2001 I got TradeStation and really found my home. I began spending every minute I could learning the platform and programming language, creating indicators and strategies, testing and trading with them. I loved it and was hooked on trading in a systematic manner.

How did Trendfinder Trading Systems get started?

Starting in 1998 I had my own structural engineering business. It thrived until 2007 when the bursting of the housing bubble brought construction to a halt. My income dropped dramatically to the point that in early 2008 I had to start withdrawing money from my trading accounts to pay bills. By mid-2008

my income had dropped to 25% of what it was pre-2007, and the future looked even worse. I had to find another way to make money because there was nothing available in engineering. Seeing that I was going to run out of money to trade with, and I had a lot of trading knowledge, I decided to become a trading system vendor and a CTA. In mid-2008 I started devoting my full time developing systems to be released to the public. In January 2009 I created Trendfinder Trading Systems LLC, published a website and blog, and that spring had my first client.

What do you feel is your company’s strongest asset when it comes to providing your clients with the best trading systems and service possible?

Integrity. When starting Trendfinder, I researched system vendors and the overall industry looking for what niche I could fill. The niche I saw to fill was being open and honest. I’m not saying there were no other honest developers out there, but there was clearly way more dishonest ones. I started posting daily results in a blog – the good, the bad and the ugly. I felt that if I had decent results, was trustworthy, and provided great customer service then I had a chance to be successful. This has proven to be true. Integrity doesn’t only apply to interacting with current and potential customers, it also applies to the system development process, trade management, and all areas of running a business. In my opinion, if you do not operate with integrity you will not get the results you want.

Any other comments for our readers?

If you are reading Futures Truth, you have likely lost money with trading systems that either did not perform as well as expected or were purely scams. You may also get lots of emails touting this system or that, and many of them are either blatant lies or naive. Most of the systems offered to the public quit working soon after release, and some do not even have a chance of working because they are based on faulty premises (or no premise!). Do your due diligence before using a system. One important question to ask the developer is what edge the system is

exploiting. If the developer doesn’t have a valid answer you should probably not trade that system. And if you want to create your own systems, that should be the first thing to determine. In my opinion, if you don’t have an edge you don’t have a valid system.

Trendfinder Trading Systems LLC

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