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Island Trader

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by Matt Blackman

What's it like to trade from your own piece of paradise? Just ask Larry Williams.



Photo by L. Stapleton

One of the biggest advantages of a trading career is the degree of freedom successful traders possess. As long as he or she has put in the requisite time to become proficient and developed the discipline, a trader may call anyplace with a laptop computer and Internet connection "the office." Is trading for a living from a secluded tropical island a viable option?

Those who have done their homework know that there is no need to be a pioneer. Many traders have already made the move to paradise. Just ask someone who has done it: someone like Larry Williams.

A highly respected name in the trading world and author, Williams gained guru status when he won the coveted Robbins World Cup Championship in futures by turning \$10,000 into \$1.1 million in less than 12 months in 1987. Since then, he has given innumerable presentations and seminars showing traders around the world his basic, no-nonsense approach to making money in the markets.

Williams has also become famous for his Million-Dollar Challenge seminars, in which he trades \$1 million in the market and in real time over a three-day period in front of an audience *and* shares 20% of the profits with them. Unlike so many seminar speakers who only look at past trades or may, at best, paper-trade in real time, Williams takes his chances in the prevailing market, trading his own hard-earned cash in the pressure of the moment. It is a rare opportunity to watch a professional trader at work.

Larry's latest book, entitled *The Right Stock At The Right Time*, set the trading world astir. While market bears roamed the streets and doom prevailed, his book painted a spectacular picture of a new bull market just around the corner. As usual, he was right. As the book hit the streets, March 2003 dawned and with it the beginning of another bull market.

Trading places

Montana-born and raised, Williams spent years in San Diego before deciding to get away from freeway traffic and the increasing urban congestion. He was ready for a simpler lifestyle, and took some time to search for his personal paradise.

He settled on St. Croix in the US Virgin Islands, its relaxed lifestyle and temperate climate, cooled by the trade winds and relatively low humidity, making it ideal for his desired way of life. Hurricanes, a risk of living in the tropics, have not been a serious factor in St. Croix, and Williams picked the leeward (north) side of the island, which is protected from most storms, which come from the south. Not only that, better construction methods and warnings a week in advance diminish the hurricane threat. But as Williams says, "What's a hurricane compared to being on the wrong side of the market?"

Favorable tax rates were also a consideration. Through the US Virgin Islands Economic

Development Commission (EDC), a variety of attractive tax incentives are available to both companies and individuals doing business from the islands. Exemptions of up to 90% on income and other taxes are available to businesses ranging from manufacturing to captive insurers and financial investment firms. Trading and investment fees that are earned off-island also receive generous incentives.

Another concern for a short-term trader is access and cost of broadband Internet connections. It is difficult, if not impossible, to get reasonably priced broadband Internet connections on many Caribbean islands. As a trader who is happy with end-of-day data, Williams finds a dialup connection sufficient for his needs. The price of phone service in St. Croix is comparable to the North American continent, another advantage of living in a US territory.

High-speed digital subscriber lines (DSL) are available in or near the central business districts in St. Croix. As this article was being written, the local telephone company had just installed a DSL line for Williams.



St. Croix – Trading is really a ‘beach.’

Photo by L. Stapleton

Another day in paradise

After an early-morning run or ocean swim, Williams scans the markets. He checks bonds

and the size of the morning gap, gold prices and foreign markets, specifically the Standard & Poor's Deposits/Receipts (SPY) in Australia, which is a good market leader. Every Tuesday morning he looks at relevant Commitments of Traders data.

Williams explains that there are zones important to determining when and what pattern to trade. Tomorrow's market can open in one of four zones: zone 1, below today's low; zone 2, between today's low and today's close; zone 3, between today's close and the high; and zone 4, above today's high. Determining where tomorrow's market will open is helpful in determining what the market may do that day, based on his research. He has approximately 180 patterns that he follows, and he looks for zones combined with other technical and fundamental considerations that work with each. If they do not match, he will not trade.

Once his trades have been placed, he turns to the task of returning the roughly 300 emails he receives each day from clients of his newsletters, books, and seminars. He then starts to work on seminar or book material, checking the market from time to time during the trading day.

In the evenings, he runs systems scans and tests, searching for promising patterns for the next day, and emailing buy and sell orders to his broker.

Trade balance

Williams approaches trading the way he approaches life. He has progressed to the point where he wants simplicity. Fewer trades mean fewer decisions and less stress. Fewer decisions reduce the potential for losses and mistakes.

Traders concern themselves with such factors as average profit per trade, risk/reward ratios, trade and system accuracy, and win/loss ratio, but there is another factor that is often overlooked and is of utmost importance, according to Williams: trade efficiency. "It's all about time. As a short-term trader, the longer I have to stay aboard to get paid, the less efficient the pattern or signals is," he commented.

At the other extreme, placing too many trades gets costly from a commission and slippage standpoint and causes the trader to miss the bigger, more profitable moves in the market. Trade efficiency allows the trader to determine the optimal trade period: a careful balance of time in the trade and greatest profit potential.

Williams tested for this optimal combination that decreases the probability of the market changing unexpectedly and minimizes the chance of significant drawdowns while maximizing profit potential. After looking at the efficiency ratio of time spent in a trade, he found that some good money-making patterns took four or more days, resulting in lower efficiency. Eliminating those trades left him with patterns that had a high accuracy rate but were also very efficient.

So Williams measures trade efficiency by the average number of days in the trade. It is

not unusual to have a pattern that produces 250 winning trades but takes five or more days to produce these wins while another pattern with a similar win/loss ratio takes less time. As he says, since you make the same amount in both trades but the second pays you a lot quicker, why bother with the first? His optimal trade period was found to be a little less than three days.

As a relatively short-term trader and a player in the S&P 500 index futures and bonds, Williams believes that fundamentals are important and he has developed an understanding of knowing what bonds, gold, and COT commercials are doing. When all are aligned, a buy signal works better than an independent technical signal. Using technical signals independently is not the best strategy because they tend to be short-lived and not always reliable. He has found them to be more reliable when confirmed by other sources.

Personal considerations

Williams says that moving to the islands has not meant that he sees less of family and friends. If anything, he sees more of them, as they love to come down and visit, as much to spend time in paradise as to visit him.

There are always sacrifices, but they must be balanced against the benefits. In Williams's case, shopping in St. Croix is limited; K mart is the best place to shop. But this is not a problem. If he needs goods unavailable in St. Croix, it is a quick 30-minute plane flight to St. Thomas, an island shopping destination.

Having your cake

Larry Williams has proven that a trader can have it all, where life is a beach while maintaining the trade advantage. It is all about finding the right combination of style, timing, and technology. He has developed and refined a style of trading that reduces his stress level while allowing him to trade profitably, given the technology available to him and one that matches his desired lifestyle. Some might find the slower pace a problem, but for him, it is a benefit.

Is an island lifestyle right for you? Williams believes that the only way to really know is to try it. Before making a permanent move, he suggests renting an island home for a few months to see how you like it.

In addition, thanks to upgrades in technology, high-speed lines are more widespread and have become a reality in the Virgin Islands. This allows daytraders, who need a real-time trading platform and the ability to place trades online, to function quite effectively.

In the not-too-distant future, it will be possible to trade in real-time from a sailboat at sea for months on end, thanks to satellite linkups and high-powered laptop computers. For some, this is the ultimate goal. Becoming an island trader has never been easier!



Larry and Louise after the last Million Dollar Challenge in St. Croix November 2004. It was a terrific event and one that will be fondly remembered by all who were lucky enough to have attended.

Photo by M. Blackman

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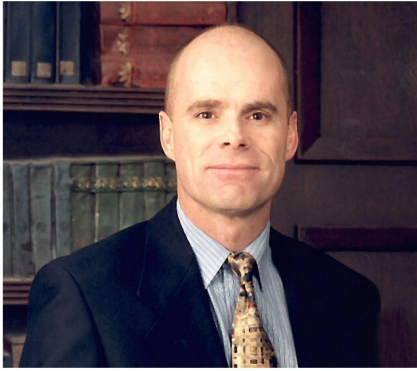
Suggested reading

Williams, Larry [2003]. *The Right Stock At The Right Time: Prospering In The Coming Good Years*, John Wiley & Sons.

- www.commoditytiming.com/Products/Million_Dollar_Challenge.asp
- www.usvieda.org/index.html

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Author's Bio



Matt Blackman is a technical trader, author, reviewer, keynote speaker and regular contributor to a number of trading publications and investment/trading websites in North America and Europe. His articles have been published in *Technical Analysis of Stocks & Commodities magazine*, *Laffer Economics*, *Working Money*, *Traders.com Advantage*, *Traders Mag (Europe)*, *Active Trader*, *SFO (Stocks, Futures & Options) Magazine* and *Investopedia.com*. He has also written articles on a wide variety of international finance and e-commerce business-related topics for such publications as *E-Commerce Quarterly*, *Offshore Finance USA*, *Offshore Finance Canada*, *Offshore Outlook*, *Shore-to-Shore* and *Shoreliner magazine*, the official membership publication for the Offshore Institute. In a September 2004 article for Offshore

Investment Magazine, he was referred to as “one of Western Canada’s leading international financial analysts” by Walter H. Diamond, economist and author of more than 50 books on international taxation and trade. Blackman is an affiliate Market Technicians Association and Canadian Society of Technical Analysts member and currently enrolled in the Chartered Market Technicians (CMT) program. He earned a BSc (Honors) degree from Simon Fraser University. He can be reached at

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