

TRADERS' Interview



THE LEGEND

Larry Williams

For this issue, *TRADERS'* spoke with Larry Williams, a successful trader for nearly 40 years. He is well known as the developer of the Williams® technical indicator, a popular tool, which is included in many software-charting packages and he has authored several books. Williams is strictly a mechanical systematic trader, and unlike many

other traders, believes that psychological factors are not key elements for successful trading. Early in his career, Williams won the Robbins World Cup Championship, producing an 11,000% return over a one-year time period. Williams continues to trade today, in addition to continuing his research and leading workshops.

TRADERS': How and when did you start trading?

WILLIAMS: I first began watching the markets in 1962 and by 1966 was actively trading.

I initially started because it looked like it might be easy money, and it is when you are right. When you lose, though, it is not so easy. I was in college getting a degree in journalism when the markets first caught my eye. I started out, however, as an art major. I've always thought that my early art training has helped me in my trading. At an early age, I was shown how to look – really look – at things, such as texture, hues and colours in blades of grass. That type of study was just great for looking at charts.

TRADERS': What were the popular trading methods featured in books at that time?

WILLIAMS: Moving averages and trendlines were the main focus. Chief among them was Richard Donchian's work. He later became a friend of mine. Also, Dunn and Hargitt's work was popular. There was also a lot of writing about time cycles and chart formations, such as William Dunnigan's "thrust method." Joe Granville, another author who became a friend, had the most comprehensive book of that era. But, no one had done any serious

back testing, as we do now. The work was all based on general observation and memory.

TRADERS': Were you successful right away when you started trading?

WILLIAMS: No. At first, I lost about half of my capital and that scared me to death. So, I stopped reading books and began studying on my own to learn as much as I could. And, I'm still studying and researching. My initial problem stemmed from a book that assured me if I followed the program in the book, I would make money. But, I guess the markets had not read that book, as it didn't turn out that way. That was both a good and bad experience. Bad because I lost money, but in doing so it greatly motivated me to find out how to beat the markets and get my money back, plus some more.

TRADERS': Once you changed your approach, how long did it take until you were even again? And, when did you start to be consistently profitable?

WILLIAMS: It took about three years to achieve success in trading and I'd say years before I got really good at it. Even then, there

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were still lessons to learn, such as money management, trade size, and new and better entry techniques. It was not until I mastered these aspects, including money management and position size that I began making millions.

TRADERS': What was your most memorable trading experience?

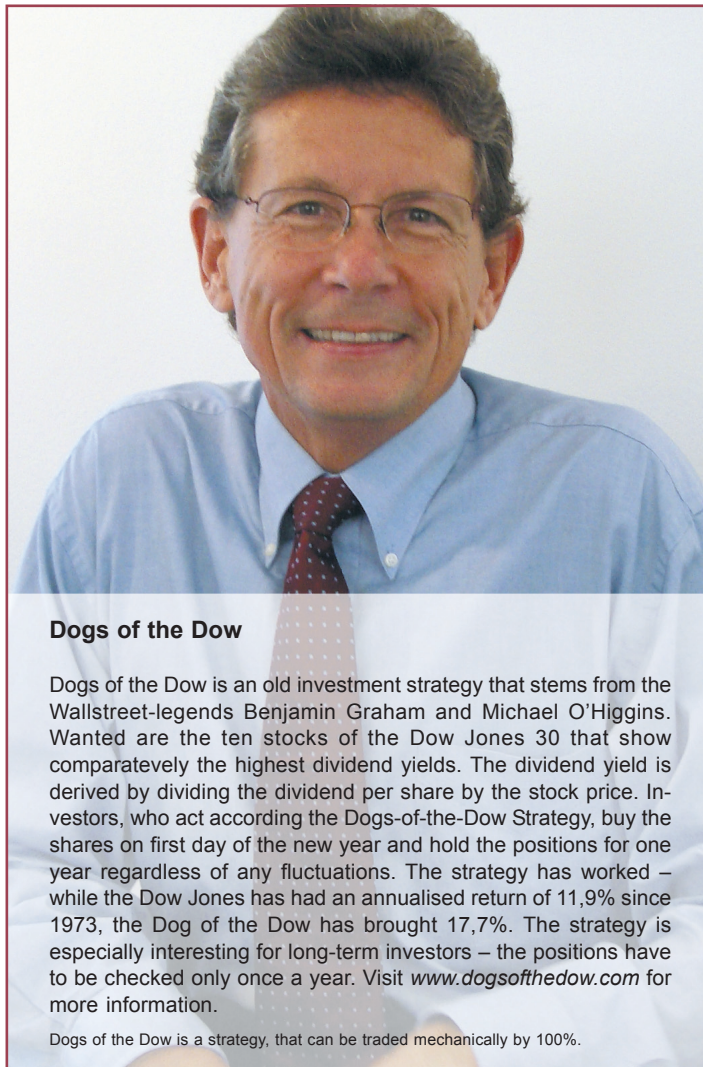
WILLIAMS: There have been so many that it is impossible to narrow it down to just one. I guess winning the Robbins World Cup Championship is the most memorable and it has set the tone for much of my life, taking \$10,000 to \$1,100,000 in real time trading. I will never forget challenging Hans Nice to trade against me in a contest, and having him back out. I did not expect that! He claimed to be the late Norbert Fischer, in Frankfurt to resolve the issue. Hans turned down the idea. It's too bad; it would have been a great show of my abilities and exposed his so-called trading system. All things considered, though, my most memorable experiences include seeing people being able to walk away from their jobs, from bosses they did not like, and make a career in trading. Being able to help people become wealthy and independent – that is the most striking thing of my career.

TRADERS': What is the most important thing you have learned about the markets?

WILLIAMS: This one is easy to answer: cut losses short. Profits never hurt you, it's the losses that are so critical and traders must learn to control them. Trading is a business of damage control. If you can't master that, you will be damaged.

TRADERS': Do you think that almost everybody could make a living trading? Even if they don't become hot shots do you think that everybody can be taught to make enough money, as in other professions?

WILLIAMS: I can teach anyone, but not everyone can do it. A great chef can teach anyone to make a soufflé. But, not all cooks can make one. Some people are just too emotional, some can't stay focused, and some are just dumb, at least dumb about the



markets, and I cannot overcome that!

TRADERS': Over the years, you have become famous for trading futures, including stock index futures, commodities and bonds. Yet, last year you published a book about stocks? Have you shifted into stock trading? What was the spark behind this book?

WILLIAMS: I began trading stocks many years ago. In 1996, I developed a mechanical system for investing, which has turned out good performance. I really wanted to share this information, in order to reveal my research and demonstrate that a successful investment method, based on fundamentals was possible. This is something the average guy or gal can do with ease and still outperform most mutual funds.

TRADERS': General market wisdom says that fundamental trading and system trading are completely different approaches. How do you use fundamental data in a systematic fashion?

WILLIAMS: Once I identify the appropriate fundamental

set-up, then I can turn to technical action including patterns, trends and other factors to pinpoint an entry. I need a known quantifiable condition to exist, in order to draw me into a trade. Markets do move on fundamental factors, and the charts and other technical indicators simply reveal that the move is underway.

TRADERS': Can you illustrate this with an example?

WILLIAMS: One example would be if the 18-day moving average for bonds were greater than two days ago. That tells me that interest rates have fallen and I might buy a gap down open in the S&P or Dax.

TRADERS': What are the most important books you've read about trading?

WILLIAMS: My very favourite is the *Zurich Axioms* by Max Gunther. I've read most of the books ever written about the markets. I believe his is best in terms of being a speculator. Each page is filled with wisdom and is extremely well written. It does not talk about how to make money, but instead the art of making money. I like the book so much I am actually trying to buy the copyright.

TRADERS': What are some other "must reads" that you would recommend to our readers?

WILLIAMS: All of my books, of course, just kidding. Anything by Tom DeMark. He's been a dear personal friend for many years.

TRADERS': How would you summarize your basic trading approach?

WILLIAMS: I describe myself as a "conditional trader." By that I mean I look for conditions that cause markets to move, what the big money is doing, what interest rates are doing, etc., then I put technical analysis on top of that. But, it all begins with the conditions. I am not wild about technical stuff. I believe that most of it is not useful and some of it actually fraud – like Gann and Elliott. I think those methods are far too ephemeral to actually be used.

TRADERS': What about your "darlings of the Dow." How did you get the idea to do research in that direction?

WILLIAMS: The darlings of the Dow are the five lowest price best fundamental stocks in the Dow 30. Once I find these then it is just a question of buying them at the right time. The idea came from looking at the "dogs of the Dow." It was a good idea but lacked timing and I think used an inferior method of selection. It only relied on yield and there are better measures of value.

TRADERS': How do you determine which are the five lowest price fundamental stocks in the Dow?

WILLIAMS: I look at several ratios, as mentioned in my book. These include ROI, P/E, sales-to-employee, declining inventories and the like.

TRADERS': If I understand correctly, you rely on fundamental factors in order to identify which stock to trade and then you look to technical analysis for the buy signal. But, once you are in a trade, do fundamentals still matter or is the exit strategy solely a technical issue?

WILLIAMS: Great question. Yes. Everything always matters. If conditions change I have to as well. A speculator has no business living in the past, or he will have no business.

TRADERS': What are some of your other market concepts or trading ideas?

WILLIAMS: I follow the commercial traders. They are the super powers, or those that use and produce commodities. I really like to be a buyer when they are buying. These guys have the money and the inside information so I track their every move. I also like to know if a market is over or under valued. I have a formula that tells me if the currencies, or corn, cattle or cocoa or copper or gold are below or above real value, not the cost of production. It



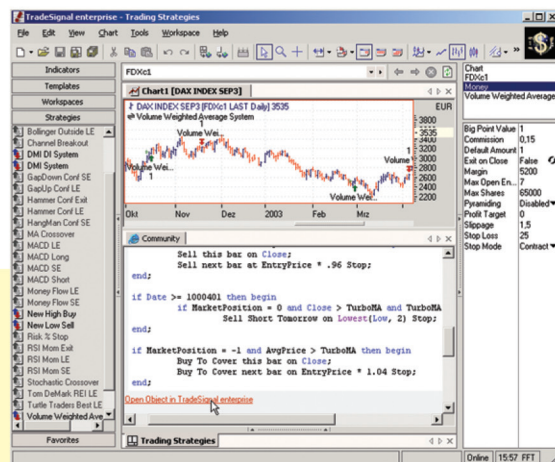
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is very helpful in finding markets that are about to have major up and down moves. I also look at specific price patterns and trend change tools for actual entry points.

TRADERS' I assume that you don't want to share this formula or some of the patterns mentioned with our readers?

WILLIAMS: Do you have four hours to learn it? It is not just the formula; it's like owning a hammer. Just because you have a hammer does not mean you can build a house. Suffice it to say I take the net commercial position and then see what percent of this week's reading is of the buying and selling of the last X number of years. In short, that's my %R applied to the data.

TRADERS' Are you are systematic trader?

WILLIAMS: Yes, I am 100% mechanical, and that's what I teach as well.

TRADERS' Does systematic mean for you that you are in fact sitting in front of your screen until the signal bell rings, or are you searching all day long for patterns that you then like to trade in a systematic way?

WILLIAMS: As a daytrader, yes, the computer will flash a buy or sell so then all I do is enter the orders. There is no need to stare at a chart and guess what to do.

TRADERS' If you describe yourself as a conditional trader and then as a systematic one that raises the question if you try to connect fundamentals with technical aspects?

WILLIAMS: Oh, absolutely, even as a short term daytrader I have made fundamentals as part of my system.

TRADERS' Where does discretion does come in?

WILLIAMS: It does not, not at all.

TRADERS' You said once, that the chart shows everything that has happened in the past. How can you look into the future?

WILLIAMS: I said that? I must have been very young. We can't really see the future. We can only guess about it, but that is based on the supporting conditions, the fundamentals. Charts show where the market has been. I have to know where it is going. Conditions move the markets, not charts, so I can and do use charts, but not like anyone else. They are the last things I look at, not the first.

TRADERS' So what are the things and conditions you look at before you check the charts?

WILLIAMS: I look at several fundamental factors including the price of gold, where interest rates are, and what the commercial players are doing.

TRADERS' How do you manage your risk?

WILLIAMS: It begins with always using a stop loss order. Mine represents a percentage risk of the money I have in my account. Like I said, it's about damage control. There's more though; I never ever plunge in. Been there, done that! My positions in the market are based on a formula of equal units or risk.

TRADERS' How do you determine when you are wrong in the trade?

WILLIAMS: This is an easy answer. I let the markets show me when it moves against my position by a pre-determined amount. Since I am protecting my capital, I use that as a starting point to determine what level of risk I can afford. If I lose that amount, the market has told me to get out. It's nice of the market to do that for me!

TRADERS' Do you also use a time stop or is it only the price that matters?

WILLIAMS: I use a dollar stop so I can protect my capital.

TRADERS' What is the average length of your trades?

WILLIAMS: I am a short-term trader. So, my average trades tend to last for two to three days. At times, I will put on set-up trades, which last anywhere from five to sixty days. That is the timeframe that most people, who have other jobs and don't have the time to follow every move of the market, should look to. I hunt for these trades, like a hunter looking for deer.

TRADERS' It sounds like you are a swing trader, who from time to time, becomes a trend follower?

WILLIAMS: Personally, my average trades are two to three days. But, for people who like to take longer-term trades, I teach how to hold for bigger moves; it's all mechanical.

TRADERS' Do you use trailing stops or profit targets?

WILLIAMS: I use both. You don't always hit the target, so trailing stops are critical. Of equal importance is to know when to kick in your trailing stop. Start using one too early and you are just setting yourself up to be stopped out. I don't let that happen.

TRADERS' How can you make sure that this cannot happen?

WILLIAMS: The market will tell us when to shift gears from a loose stop to a tight one. That's done when price starts to break out and becomes profitable. Then it is time to ratchet up your stop.

TRADERS' How much of your capital do your risk per trade?

WILLIAMS: Now, it is about 5%. When I was younger it was much higher. With age comes wisdom. Even that is a high risk factor, but I have traded all the way up to 30%; it causes wild times.

TRADERS' How do your test your trading ideas?

WILLIAMS: I use Genesis software to test, create, and then run my ideas. The software is a delight. I have no programming skills but still can find out what happens to the Dax before and after holidays, what it does when interest rates jump up, or just about anything you can think of—all with no computer skills. First, you need to come up with the idea. That could come from talking to someone, reading a book or such, but it usually comes from looking at the markets. I look at them a lot...great Saturday night fun.

TRADERS' How important is the psychological element?

WILLIAMS: I differ on this from most people. I really don't think it is important at all. If you have a good system, one's mindset is not the problem, unless the trader is risking too much. That always wreaks havoc with one's emotional state. As a mechanical trader it is just a question of placing orders. People who have psychological problems trading don't have a good system or technique to follow. The problem is not the mind. The problem is what you are minding in your trading.

TRADERS': That is interesting. 90% of all traders would state that psychology is a very important issue. Are they all wrong or what is their problem then?

WILLIAMS: Well, that's how I see it. There is lots of psychobabble about trading and it mostly comes from people who don't have a clue what they are doing so the market befuddles their mind. If you know the rules of the game and how it works, what is there to drive you bonkers? Not much. You are not losing money because your Mum spanked you as a kid. You are losing because you are not doing the right thing. The truth shall set you free.

TRADERS': What is an example of a typical workday for you?

WILLIAMS: I usually get up about 5 a.m. and swim in the Caribbean or go for a run. Then, I check and see what the markets are doing and e-mail orders to my broker. I still do like to watch the markets open. Then, it's back to work on mail, research and business. Once or twice a day I may check prices. But, not very often, as my trade is already on with my stop and exit point in, so there is not much I can do at that point. Watching does not help and in fact is a gigantic distraction from getting real work done.

TRADERS': Your workshops are quite famous – what is so special about them?

WILLIAMS: I think it is that I am the only one on the planet who trades \$1,000,000 in real time and then gives back 20% of the profits to people. I just finished a seminar doing this in Australia and made close to \$40,000 in two days of trading. The students were astonished, and pleased that for once in their life they made money at a seminar. Since I started doing this I

have made about \$950,000 in 20 some trading sessions and given people back close to \$200,000. They know I am for real, that I really trade and am not just some guy spouting off. More importantly though, I think, is that I teach so much. I teach how markets work and also share my mechanical systems. I show people how this all takes place. It is a joy to see the light bulbs go off, as they finally understand the logic of the marketplace. Many have gone on to win trading contests, make millions of dollars, and manage funds. That's a special pleasure I get—to see the success of my students.

TRADERS': How is the feedback?

WILLIAMS: It is very positive and it's for a reason. I show how the markets really operate and right away people can see how to make money. I have many repeaters, and several families, first the father, then the son; with one family I have taught three generations of them! I think that's pretty cool, and they are a great family.

TRADERS': What was the most interesting experience for you in your workshops?

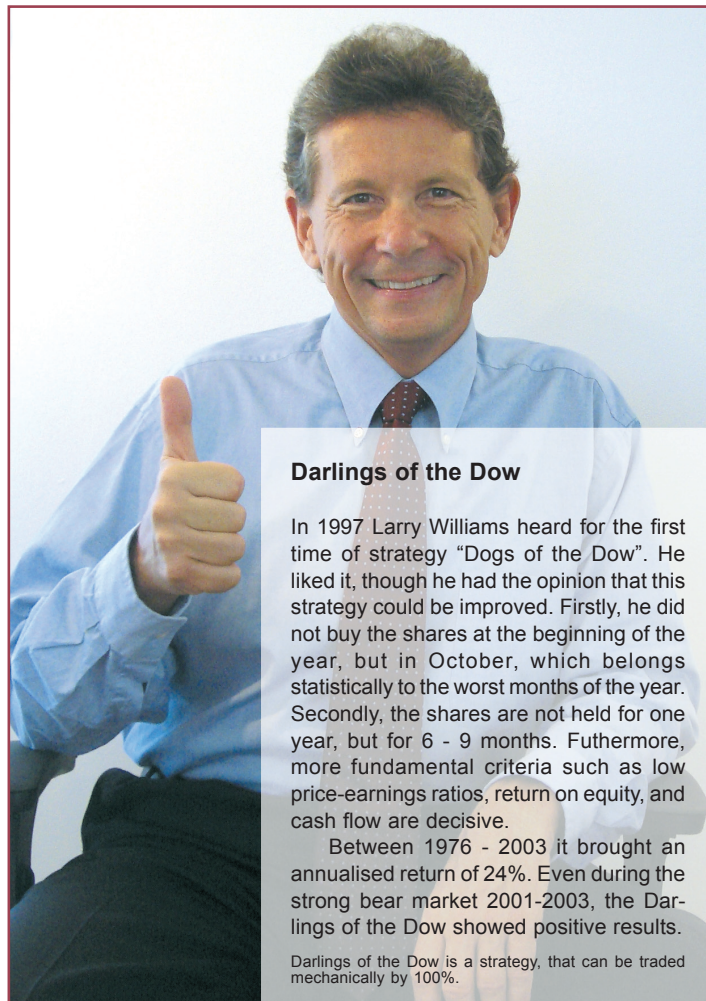
WILLIAMS: The highlight was making over \$150,000 in a daytrading session right in front of 80 people and learning from my students. Also, I enjoy meeting so many wonderful people and getting to see the world. People come to see me make money, when I shock them and make more in a few days than that might in a year, well it is interesting to see the looks on their faces!

TRADERS': Who was your worst student and why, no names of course?

WILLIAMS: Well, if there is a bad student it may well be it is the teacher's fault. But, there was a guy who has e-mailed me over 300 times this year alone who ranks up there. And, his first question was how many days are in a 10-day moving average. He seems like a very nice man, but just does not understand the markets.

TRADERS': Is it true that your daughter is also trading successfully?

WILLIAMS: Yes, it is true. I home schooled her as she was



starting her acting career. You may have seen her in *Species*, *Dawson's Creek*, *Lassie*, *The Station Agent*, *Halloween 20* and a host of other movies and TV shows. I also showed her the markets. She took \$10,000 to \$110,000 in real trading.

TRADERS': When did she begin trading?

WILLIAMS: She began in 1999, when she was 16. She took to trading like a duck to water. She is very bright and appears to have little fear of anything in life, which helped.

TRADERS': What did you teach her?

WILLIAMS: I discussed a lot about money, what it represents, the concept of work, the concept of speculation, risk, and things like that. Also, we talked about the influences on the bond market, including how it relates to the price of gold and its strong seasonal patterns.

TRADERS': Do you believe that anyone has the potential to trade successfully?

WILLIAMS: Hmmmm maybe, maybe not. You can't be dumb and you can't be overly emotional. I have seen very smart people blow out and folks who I was not certain could make it become millionaires. You just never know if the shoe fits until you slip into it. It's the same for trading.

TRADERS': What are the typical mistakes that beginning traders make?

WILLIAMS: The typical errors that I see are overtrading, which could mean either trading too often or risking too much on a trade. But, there also is a bigger problem. Many people begin trading with no background or understanding of how the markets work and sadly continue to operate in that matter. It's no wonder that so many people fail.

Larry Williams' Top Six

1. **Max Gunther: *The Zurich Axioms.***
New Amer Library, 1989. ASIN: 0451158393.
2. **Tom R. DeMark: *New Market Timing Techniques – Innovative Studies in Market Rhythm & Price Exhaustion.***
John Wiley & Sons, 1997. ISBN: 0471149780.
3. **Tom R. DeMark: *The New Science of Technical Analysis.***
John Wiley & Sons, 1994. ISBN: 0471035483.
4. **Larry Williams: *How I Made \$1,000,000 Trading Commodities Last Year.***
Windsor Bks/Probus, 1979. ISBN: 0930233107.
5. **Larry Williams: *The Right Stock at the Right Time – Prospering in the Coming Good Years.***
John Wiley & Sons, 2003. ISBN: 047143051X.
6. **Larry Williams: *Daytrade Futures Online.***
John Wiley & Sons, 2000. ISBN: 0471383392.

TRADERS': Do you employ other traders?

WILLIAMS: I do not. I trade for myself and for a hedge fund that I manage.

TRADERS': What are the performance figures of your hedge fund?

WILLIAMS: About 18% a year.

TRADERS': You probably have made a fortune over the years. Do you think of retiring?

WILLIAMS: I could never retire. This is too much darn fun and the money is too easy to come by. But, I have slowed down my schedule, lecturing as well as writing.

TRADERS': Does trading make you happy?

WILLIAMS: Yes it does. But, the greater happiness comes from learning about the markets, from knowing more and getting better over the years. The challenge is still there.

TRADERS': What do you think of this business and industry as a whole?

WILLIAMS: It has been my life. There are some bad people, but that's true of anything. I love it; I love the markets and what they have done for me. But, the business is full of charlatans, people who don't trade, or snooker other traders; it sure adds colour to this industry.

TRADERS': How has trading changed during the years?

WILLIAMS: Computers have changed it dramatically, allowing us to do better research than ever before. This has also allowed the average guy access to the markets, with financial television stations like CNBC, the Internet, and electronic trading.

TRADERS': How could trading develop in future?

WILLIAMS: My guess is there will be even more electronic trading. But, the game itself will still be the same: one of conditions and causes laced with human emotions. At the core I think markets move from point a to b based on fundamentals. That's the horse, if you will, and the road is one of human emotions and randomness that can be bumpy, so while the media may change, markets will always be markets.

TRADERS': You've done a lot of other things in life besides trading, including marathon running, archaeology, and politics. What can we expect from you in the future?

WILLIAMS: More research and more understanding of the markets is my driving goal. But look for change and surprises! The world has changed in so many ways. I am learning to adapt, to know more, and trying to become a better person. I enjoy an active life and like to test myself. So, that's where you will find me, I hope, on the leading edge of my passions in life.

TRADERS'