

Money Management 101

[Volume #1]

Why do you think the Insurance industry and the Gambling industry makes money consistently?

They play the probabilities and their history of earnings show that they are correct in playing probabilities.

Have you ever gone back in history and looked at a study of skyscrapers?

Home Insurance Building in Chicago, 1883

Metropolitan Life Insurance Tower in 1909,

Manhattan Life Insurance Building 1894

Two Prudential Plaza Chicago, IL

John Hancock Center

Aon Center Chicago, IL

Aon Center Los Angeles, CA

MetLife Building New York, NY

Hancock Place Boston, MA Home Insurance Building in Chicago, 1883

Metropolitan Life Insurance Tower in 1909

Do you know why Warren Buffett is the largest owner of insurance companies in the world? Do you know why he took in 1.7 billion in net profit in 2004 from his insurance holdings?

Probabilities. Insurance is a sure bet well placed bet.

What about Casinos? They take the odds all the time and they win over the course of time. It's money management at its best.

No matter how hard you work, or

- how much you read
- study
- chart
- take courses
- take seminars
- write trading systems
- Nothing will work in the end if you don't money manage. How do I know? Math doesn't lie.

MM takes discipline and with that discipline problems will manifest. As a trader you will naturally resist it. Why?

- Do I need to cite the reasons?
- You all know the reason's because you've all shown the ability to be completely undisciplined.
- I'll give you one example.
 - your +\$500.
 - you do a trade.
 - It's in your face \$200 so your net P&L is now reading \$+300 NOT +\$500.
 - As a trader that is a massive psyche shift and if you don't have MM in place, then you will most likely not cover this loser until you are only +\$100.
 - If you had MM in place you would have been out at -\$150 on that trade and ended with a P&L of +\$350.
 - The next day, I guarantee you will not remember that you Money managed. You will see +\$350 and you'll get on with the day. IF HOWEVER, you ended up losing most of your money on that trade yesterday YOU WOULD remember that. Therefore, you've already started the day off negative because you're thinking about how you blew it yesterday and if I ONLY WOULD HAVE GOTTEN OUT.....
 - enough said.

Let's look at some MM tools.

- Take a look at the handouts. (See below in this document).
- The first thing you should understand about these work books, or, MM tools is that they are templates (these are the xls workbooks MM_Outright, Spreads, Cash, Futures.xls) The workbooks are templates and you may change them. Make them your own.
- Adapt them to your commodity
 - By doing that you'll need to learn how this sheet works. That will involve time.
 - If you structure the time, then it will be productive.
 - Set aside 20 minutes a day for 3 straight days. Go over the spreadsheet by highlighting cells and looking at the formula, if you are a beginner.
 - If you know excel, then spend the time adapting the spreadsheet to your commodity.
 - After you spend 20 min a day for 3 days, take a day off. The following day start up again. 20 min a day, for 3 days. Begin to adapt the sheets to your commodity.

- Follow the same schedule as you learn more and more.
 - 3 days on, 1 day off.

<u>Steps</u>	<u>P&L</u>	<u>Risk</u>	<u>Ending P&L Gains</u>	<u>If box is red, stop trading for day. If purple, keep going.</u>	<u>Risk in Tics</u>
Step 1	\$156.25	\$15.63	\$171.88	\$140.63	0.50
Step 2	\$171.88	\$15.63	\$187.50	\$156.25	0.50
Step 3	\$187.50	\$15.63	\$203.13	\$171.88	0.50
Step 4	\$203.13	\$31.25	\$234.38	\$171.88	1.00
Step 5	\$218.75	\$31.25	\$250.00	\$187.50	1.00
Step 6	\$234.38	\$31.25	\$265.63	\$203.13	1.00
Step 7	\$250.00	\$31.25	\$281.25	\$218.75	1.00
Step 8	\$265.63	\$31.25	\$296.88	\$234.38	1.00
Step 9	\$281.25	\$31.25	\$312.50	\$250.00	1.00
Step 10	\$296.88	\$31.25	\$328.13	\$265.63	1.00
Step 11	\$312.50	\$46.88	\$359.38	\$265.63	1.50
Step 12	\$328.13	\$46.88	\$375.00	\$281.25	1.50
Step 13	\$343.75	\$46.88	\$390.63	\$296.88	1.50
Step 14	\$359.38	\$62.50	\$421.88	\$296.88	2.00
Step 15	\$375.00	\$62.50	\$437.50	\$312.50	2.00
Step 16	\$390.63	\$62.50	\$453.13	\$328.13	2.00

<u>Steps</u>	<u>Risk</u>	<u># of Steps</u>
Steps 1-3	0.50	3
Steps 4-10	1.00	7
Steps 11-13	1.50	3
Steps 14-17	2.00	4
Steps 18-20	2.50	3
Steps 21-23	3.00	3
Step 24	5.00	1
Steps 25-26	3.00	2
Steps 27-29	4.00	3
Step 30	4.50	1
Steps 31-33	5.00	3
Step 34	3.00	1
Steps 35-36	5.00	2
Total		36