Assignment # **Agricultural Commodities Marketing** *Stephen R. Koontz*
Sample **Agricultural and Resource Economics 412**

This sample assignment summarizes the trading strategy and discussion with Bill Lipschutz in Part II of <u>*The New Market Wizards*</u> *(pages 17-68). NMW is different from MW and this author is not one of your possible choices. But he is a good read. All assignments are expected to follow this example format. The assignments should be one page in length and word processed. Run the spell and grammar checker. Use single spacing with block paragraphs. Use one-inch margins and an 11 character per inch font. Your assignment should have a heading similar to the above using your name and not mine. You need to clearly identify the trader you are discussing, the section of the book, and the other traders that you discussed in prior assignments. These assignments are not book reports. They are not summaries. They are critical reviews. I have read all the MW books. I have read all books several times. You must discuss how you think the trader is skilled (has ideas that lead to good decisions) and where the trader was lucky (experienced good outcomes). Both will make you money and should not be confused. Each interview should be discussed commenting on improving your ability to make good decisions as a trader. What did they say or do that you think is useful? What did they say or do that you think is less useful? You must draw conclusions. Read your own writing carefully. I will read your writing for content. Poor writing will make this difficult if not impossible.*

Bill Lipschutz is a currency trader. He trades on the interbank currency market, which is the largest market in the world. International banks are members of the interbank market and they trade world currencies 24 hours a day. This is not a futures market. However, along with trading spot market currencies, forward contracts for denominations of currencies to be delivered at some time in the future are traded. The market also trades options contracts and interest rate contracts on different currencies.

Bill Lipschutz began trading with a small stock and bond portfolio of his own as a student. He developed an interest in trading equities and found a job with the investment bank Salomon Brothers in their equity options department. This group traded stock options for the bank. Part of the reason he obtained the job was because he impressed the head trader Sidney Gold with his knowledge of the stocks in his own portfolio. This is a point which comes to the surface throughout the interview. Bill Lipschutz is a trader and he has worked to be one of the best traders. He started by teaching himself about the things that impact stocks and bond markets. He continues with developing contacts throughout the marketplace and staying informed. This is a skill which impacts his trading strategy and which will be useful in his move from equity options to currencies.

As a currency trader, Bill Lipschutz talks about memorable trades. The details of the stories are all interesting but the main points communicated to me are his commitment to trading and willingness to work hard. He gathers facts, looks for opportunities, and executes controlled trading. His story about losing $18 million on a short dollar position when Gorbachev announced troop reductions illustrates he only gets in trouble when his trading is out of control. The story also illustrates the importance of a trader controlling his emotions and having good market judgment. This dollar trade was losing $90 million at one point. He waited for the liquid

dollar market to open (Tokyo) and, upon the open, had the judgment to let the market continue its move in his favor before offsetting the position. The fact that he was losing $90 million had no impact on his trade execution. What did he learn from this losing trade? Risk control. Do not trade too big of a position.

(*Now, look at what I just did: on to the second page. You should not not not do this. Think: "Once more, half as long."*)

There are several good pieces of advice conveyed in the interview along with disciplined trading and caution about trading too large of a position. They are as follows. 1) Let profits run. A good trader does not need >50% winning trades. They should only need 20-30% winning trades. 2) Enter positions slowly and exit positions slowly. 3) Your ability to assimilate and analyze information will be distorted by lack of confidence following losing trades. Trade small and work on restoring your confidence. 4) Follow market fundamentals and do not stay in a trade (even a winning trade) if you do not understand why the market is doing what it is doing.

I disagree with some of the discussion in the interview, but I do not know how much of it is Bill Lipschutz or how much is Jack Schwager. They spend pages 55-59 talking about how interbank market members make money at the expense of customers. The members do this through the bid/ask spread and frontrunning. These practices are bad for business. They imply that bank customers are stupid (they give money to the bank for nothing) or that the interbank market is not very competitive (the customers should find another member to do business with unless there are not any). I do not find either very plausible. Rather, to me it sounds like a professional speculator (who is very good at what he does) bragging about how good he is compared to regular bank traders who participate in the market to really just provide a service to customers (and get paid for it). The second discussion I do not like is the one about subconscious trading abilities on pages 59-62. This discussion is flaky. Bill Lipschutz is on more solid ground here than Jack Schwager. However, in the discussion that follows on pages 62-63, I have trouble understanding the difference between a good trader who uses market experience and innate feel, and a bad trader who follows gut reactions and makes snap decisions. In the first case, they probably made money and in the second they probably lost money. It sounds like they are evaluating outcomes rather than decisions.

Bill Lipschutz really says some things worth remembering on pages 63 and 64. First, the best traders are smart and work hard. They are committed to and focus on their trading. "They develop scenarios, reevaluate scenarios, collect information, and reevaluate that information. They are constantly asking themselves: What am I doing right? What am I doing wrong? How can I do what I am doing better? How can I get more information?" Second, the best traders have courage. They do not follow the crowd, they lead. I disagree with one final assessment of Bill Lipschutz by Jack Schwager. I do not believe the success of Bill Lipschutz in trading is due to an innate talent. I think he started with a natural interest in markets and then (here J. Schwager and I agree) he worked very hard to develop his trading skills.