

Finding your winning edge

Most new traders fail, at least in the long-term. The reason is while it's possible to find an edge that will be successful for a short time, it's more difficult to find a long-term successful one.

"Don't trade without an edge," says Rickey Cheung, developer of his own winning edge, which is the basis for several successful trading systems. He offers a seminar called RCLogic through his Web site, www.rcllogic.com, where he teaches his trading method as well as how to find your own winning edge.

Cheung defines a winning edge as something that works all of the time — past, present and future, not just past and present. A trader can take a strategy, backtest it, and the results could show it would have done well throughout the last two years, but that doesn't necessarily mean it will be profitable in the future. Cheung says he knows it's not possible to trade without a winning edge and be successful because he lost a lot of money when he began trading, as most traders do.

Cheung says an "edge" could be using the crude oil futures sentiment for insight into S&P futures. "He can look at just the price of crude and when crude prices go up then the S&P goes down, and when crude prices fall the S&P will go up," Cheung says. "So this trader may find a winning edge, but it will only last for two months. A few months from now there will be a different sentiment, so the trader has to find another winning edge. So while he is successful, he doesn't have a consistent winning edge... but the key is consistency."

Futures Truth, which tracks results of various trading systems, shows Cheung's RC Miracles and RC Success systems have rank first and second for the past straight year compared to similar systems. He says his winning edge is catching countertrends faster than other systems. "Being consistent is the most important element. Any trader or any system can have a winning period of weeks or months, but a truly successful trader or system has to work all of the time," he says.

Cheung has been trading for 20 years with focus on the S&P and the e-mini S&P futures during the last 10 years. While his systems were developed specifically for the S&P, they can be used in any market.

FEAR AND GREED

Cheung says there are only about 5% to 10% consistent winning traders and the same applies for trading systems, and any edge is necessary to succeed.

Cheung attributes the high number of losing traders to the different reactions people have to fear and greed in situations that occur in trading vs. situations that occur outside of trading. "Many traders allow the all too commonly discussed neg-

ative emotions fear and greed to influence their trading decisions. These emotions are counterproductive when trading futures," Cheung says. He says a trader who can't keep his emotions out of trading can't have an edge and may be better off trading with a mechanical trading system. By allowing a system to generate objective entry and exit signals, independent of emotional bias, traders can eliminate the effect of these emotions, he adds.

"In a real situation when you see a danger, like a vehicle headed towards you, you feel fear, so you would cut the loss quick and get out of the way fast. But in trading there's a different psychological makeup. Most traders, when they lose, will not feel fear in [that] way, they will be greedy and add more contracts to the position to hopefully make it up. Then they end up losing even more," Cheung says.

SCIENTIFIC METHOD

Cheung developed his winning edge through years of observation, and anyone can do the same. He used his history in biochemistry to find his winning edge; he used the scientific method and five parameters. "I observed the market with my five parameters and I recorded data just like you would in a lab and through that I formed a hypothesis, like, if this parameter goes up, then the S&P goes down," he says. He would then experiment by writing systems and testing them and come up with theories on how the five elements could work together. The experiment is the most important aspect, according to Cheung. "If the experiment fails, then you start a new observation and form a new hypothesis. When the experiment succeeds, then you can make a theory out of it."

He says while it sounds too simple, simple is where you have to begin. "I measure the relationship, the correlation and the negative correlation of these five parameters," he says. "With those measurements I can have a more accurate and faster indication of the intraday market trend, or countertrend than with other indicators. And that's why this is a consistent winning edge everyday. The five parameters we compute exist every day. They don't occur once a week or in a few months. They are always relevant. The real edge of RC models is the RC indicators, which measure the intraday strength and weakness of the market, and act accordingly." His systems are not based on past winning patterns that most systems incorporate.

"Anyone can be successful, but you have to learn to think outside the box," Cheung says. He says it's hard to follow someone else's system or indicator to be successful because there are many other traders using those same systems and indicators. A trader has to be able to find his own personal winning edge through his own study of the market.