

HOW THE WORLD'S MOST SUCCESSFUL TRADERS MAKE  
THEIR LIVING IN THE MARKETS

TODD GORDON

ANNE-MARIE BAIYND

LINDA RASCHKE

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# TRADERS AT WORK

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TIM BOURQUIN AND NICHOLAS MANGO  
FOREWORD BY JOHN BOLLINGER

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# Todd Gordon

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**Todd Gordon** is a founding partner and director of research and trading at Aspen Trading Group, as well as a principal in the money management company Floyd, Gordon & Partners. Formerly, he served a dual role as the senior technical strategist at [FOREX.com](#) as well as senior trader for GAIN Capital Asset Management, the parent company of [FOREX.com](#).

Gordon was one of six traders at GAIN Capital Asset Management responsible for trading capital in excess of \$10 million. He is a regular contributor on the CNBC shows *Fast Money* and *Money in Motion* and he has provided his expert analysis of the global market on Bloomberg, BNN (Business News Network), and Dow Jones Online, among others.

While attending St. Lawrence University in upstate New York, Gordon competed on their Division I alpine ski team, racing against future Olympians, and he continues to enjoy hitting the slopes in the winter. He lives by the mantra “plan your trade, trade your plan.”

**Tim Bourquin:** I heard trading was your first job right out of college. Where did you go to school?

**Todd Gordon:** I went to St. Lawrence University in upstate New York for my first two years. I was an economics major and business minor and at that point, I hadn't quite found my passion. My focus in college was downhill ski racing. St. Lawrence was a Division I ski school, so I fought to make the team and got to rub elbows with some future Olympians who were also on the team. Honestly, in college I was almost entirely focused on improving my slalom turn and that was about it. So after racing there for two years, I told myself it was time to focus on work and what I wanted to do as a career. I could see that my living wasn't going to be made on the ski slopes. So I switched from St. Lawrence to Albany State and finished my degree there. I didn't give up competitive skiing entirely, though. Albany State had a Division 3 ski team, so

I continued to race, but I began to focus more on my business and economics degrees. It was during those last two years that I began to seriously consider a career as a trader.

**Bourquin:** Did you know much about what it took to have a career as a trader at that time? Did you think you might work on Wall Street?

**Gordon:** I had an E-Trade account all the way through St. Lawrence and then my next two years at Albany, and it was more of just a hobby, day trading stocks just as the term “day trading” began appearing in the news. Back then, I was just throwing darts at a wall with my trades. I followed a chat room back then by a guy named “Tokyo Joe.” He was the biggest sensation and had thousands of traders in his chat room every day while the market was open. He’d put up a stock pick and everyone would just go buy it without really knowing why. It was a crazy time.

**Bourquin:** Didn’t he get indicted or something?

**Gordon:** Yeah, he wound up being a crook when his whole scheme was uncovered, but he would pump stocks in his chat room and everyone would go chase the stocks. Turns out he had bought those stocks a few days before and would literally start selling minutes after he recommended that everyone in the chat room buy the stock. His stock picks, and the number of members he had who would act on them, could really move the market quickly. I remember one trade I made was in the symbol GEEK. I think it was Internet America, and I think I made \$10 per share in like 10 minutes.

Of course, there were a ton of other trades that went badly and I was stopped out all the time. I certainly loved the game of trading, but ultimately I knew that following a chat room blindly without any understanding of what’s going on or why I was making certain trading decisions wasn’t sustainable over the long run. You may make money here and there if you’re lucky, but constructing your own strategy based on objective measures is the only way to make trading a full-time gig.

So that’s when I began my quest to really learn how to trade on my own without having to rely on some chat room host to spit out buy and sell recommendations. One of the first books I read in college was Alexander Elder’s *Trading for a Living* [Wiley, 1993]. I knew I wanted to trade for a living, so I figured that was the perfect book to start with! It was the first time I learned about reading charts and technical analysis, and all of a sudden I was learning how to draw a simple trend line on a chart. I began drawing trend lines all over and that’s when I started to formulate some kind of plan about which stocks I was going to buy or sell. Those simple trend lines were the beginning of an objective way to look at the market and understand where good trades might be entered.

The funny thing was, while I was learning about economics, which I thought back then was going to be essentially useless in the trading world, I was starting to understand how to do basic technical analysis and applied it to every stock I was considering. When I saw how stocks behaved and bounced off these trend lines as support and resistance, that's when I got bitten by the trading bug completely, and I just knew it was what I wanted to do as a career.

It turned out my economics degree wasn't totally useless. I actually think it helps me understand the markets in a deeper way, especially now that I trade the currency markets. That broad understanding of how world economies work has been important to my success.

**Bourquin:** What kind of software and tools were you using back then?

**Gordon:** It's funny, because I can't even imagine trying to trade on that same system today. I was day trading with a web-based account and an E-Trade account very early on in that company's life. The interface and tools are nothing like they are today. I think I had five grand in the account. I was day trading on a ridiculously slow dial-up internet connection. But the competitor in me really got into it, and I was determined to be good at it, regardless of the crappy tools I was using. I remember I was on AOL dial-up, and it was way back at the time when you had to pay per minute because it was a long distance call for me to be on the internet. I was nineteen and at home—just hanging out at my parents' house. My mom came to me with this huge phone bill and she almost killed me. I was on the internet around eight hours a day while the stock market was open. There were a few phone bills that were a thousand dollars each, and needless to say, my Mom was pissed.

**Bourquin:** Yeah, I'll bet. When you were placing trades on a dial-up connection, you clicked the Buy button, and you let the thing spin for a few seconds. I remember those days, and it was like a minute and a half before you got a confirmation, right?

**Gordon:** I don't even remember. It must have been, but back then it didn't even occur to me that I wasn't getting the best price. I didn't have any knowledge of execution practices by the market makers and the games they would play. The spreads were huge and the slippage was terrible. You'd get crushed if you put in a market order because the price you'd get was nowhere near what you thought it was going to be. The software crashed all the time. You'd get disconnected from the dial-up connection. It was a mess. Back then, I thought that was just part of the game. I had to start somewhere. And I suppose that if you could make money in that trading environment, you could make money anywhere.

**Bourquin:** Yeah, absolutely. If you didn't go through that, you probably wouldn't be the trader you are today. So even bad experiences, I think, somehow add to your education as a trader. When you graduated from college, did you get a job as a trader right away?

**Gordon:** I went right to work looking for trading jobs. I found a company on [Monster.com](#) based in San Diego. I was just about to take my last finals during my senior year, and I called the number in the job listing. The guy who answered the phone wound up being my current business partner, Dave Floyd.

I talked to him on the phone, and I said, “I’m really interested in trading. I’m just out of college and I’ll graduate here in a little bit.” He told me they had open positions for traders, but of course, he needed to interview me. He was in San Diego and I was in upstate New York right before finals week. I wasn’t sure how I was going to make it happen, but I knew this was an opportunity I shouldn’t pass up. Who else was going to even consider hiring a trader right out of college whose only experience was a chat room, a few books on how to trade, and an E-Trade account? So I said, “Let me call you back.” About a half-hour later, I called him back and I told him I would be there on Tuesday.

I flew out ahead of my tests and met him, interviewed, and immediately flew back home to take my finals. A few days later, he called me back and said I had the job if I moved to San Diego. I had a lot of family in San Diego at the time, and moving from the winters of upstate New York to the sunny beaches of San Diego was an easy decision. I had the opportunity to work as a trader and live in paradise. What more could I ask for? I lived in Pacific Beach, and it was a great move. I learned the ropes of trading from Dave in those first few months out of college.

**Bourquin:** Do you remember what he was looking for in a trader? Was he looking for certain qualities or a specific type of person? What do you think he saw in you?

**Gordon:** It’s funny because most traders know that academic record does not always translate into success as a trader. Sometimes, people who have overly impressive academic records wind up being terrible traders because, basically, they’re not used to being wrong. Trading is not like engineering or mathematics, where you have a formula and when you plug in the data, the answer is either right or wrong. As a trader, you need to be very okay with being wrong in the markets. Confidence and ego can ruin a trader who is determined they are “right” and the market will move in their direction. There is a saying all veteran traders know well: “The market can stay irrational longer than you can stay solvent.” It is absolutely true. There is no right answer in trading, and you are constantly making decisions based on incomplete information. Some people have a very hard time with that.

So, my first boss and current business partner actually looked at my ski racing background and understood that I had come from a competitive background. He said to himself, “This guy’s tough and did well in an independent sport.” There’s a lot of responsibility and self-discipline that goes along with ski racing, because it’s you against the course—not really the other team. So, I think he saw the competitive spirit in me and almost everyone in this business knows



it is an important quality when you make your living in the markets. He also knew that I came out to the interview right before my finals, which he said showed commitment to the job and to learning what it took to do well.

**Bourquin:** I love sports analogies as they relate to trading, Baseball is my favorite sport and I see correlations to trading all the time. In skiing, the thing that comes to the top of my mind is that you're always looking down the hill at the next turn and anticipating what it will take to get past that next flag without falling. Is there any connection there with skiing that you think helped you become successful trader?

**Gordon:** Yes, absolutely. It's actually one of the stock stories that I love to tell in my speeches at the Traders Expos and other conferences because it's so wildly applicable. If you turn on the Olympics during a ski race, you see the guys jamming down the hill at fifty miles an hour, but what you don't see is all the preparation that goes into the race ahead of time. There's actually a period of time called "course inspection." What they do is go to the top of the course and sideslip down the actual course they will be racing on later that day.

What you're doing is taking mental notes and developing a strategy to account for the different types of terrain on the course. You're looking at where the sun is hitting the snow, which is going to create inconsistent snow conditions. Or maybe there's a certain area that's shaded from the sun, so it's going to be very hard and icy. And maybe there's some rough terrain at a certain point on the course. You're taking into account all these known factors that will impact the course of your race, so you can build them into your game plan.

Preparation in ski racing is key because when you're doing forty or fifty miles an hour down the hill, you're not going to have time to think about these things before reacting. This needs to be built into your game plan before you even start the race. Inevitably, there will be unknown variables that pop up that you couldn't see ahead of time, so you need to be free while you're acting on your game plan to encounter those factors, and adapt and work through them on the fly.

Trading is really the same thing, especially the way I trade. I look at the market from all angles, and I'm constantly on the lookout for anything that could pop up during the course of my trade. If possible, I incorporate those factors into my trading plan before I actually place the trade. The fewer surprises, the better, and I know that, for me personally, I'm going to react much more objectively while I'm in a trade if I've already got a written game plan. Because inevitably, there will be things that pop up in the course of the race—or the trade—and you'll need to have your full attention to focus and make quick adjustments. So skiing and trading are unbelievably close in terms of preparation and execution during the course of your trade or a race.

**Bourquin:** I always hear very good professional traders say that they are confident making decisions without 100 percent of the information. They

don't know everything there is to know, and yet they're still able to make a confident decision in the markets. Is that something you agree with?

**Gordon:** I think Paul Tudor Jones said it best when he said that some of the best trades are the hardest ones to put on. I think that means there needs to be a leap of faith. I'm not talking about blindly putting on a position without doing your research. But there's a point where you have gathered and assimilated as much information as you possibly can. You're never going to know everything. If you insist on knowing everything before you execute the trade, you're going to constantly have "paralysis by analysis." That's counterintuitive.

As human beings, we all believe that you can never have too much information. More information should equal better decisions, and that's true to a point, but you need to be able to make that decision to buy or sell knowing that you don't know what the outcome will be. So there needs to be a leap of faith. You can have the probability stacked in your favor, but there's inevitably a gut feel part that has to come into play.

There's an instinct that can be developed over time by watching the markets enough. You can get 80 percent of the way there by studying the markets and learning as much as you can about the behavior of a particular stock or option. Then 10 percent will be gut feel that you develop as your experience as a trader grows. The final 10 percent is that information that you just don't know. You have to be okay with that final 10 percent and still make good decisions without it.

Having all the information is not going to allow you to execute the best trade. At some point, you need to just feel when the market is going to make a move. I don't think you can quantify that. The best traders are not the ones that are the best researchers. If that were the case, scientists who are great at studying data would probably be clobbering us all. In the real world of trading, you gather the information you can and then you make a decision.

**Bourquin:** What markets were you trading when you first started?

**Gordon:** We were trading stocks at my first company, mostly NYSE-listed stocks—big companies. I'm a big advocate of getting to know the personality of a market, getting a feel for the market you trade so that you can begin to anticipate reactions to news and demand. One of the advantages of trading NYSE stocks was you were typically dealing with just one specialist. There's obviously one guy making the big "prints" and price moves on the New York Stock Exchange floor. You'd get to know his personality and the way he would handle his bid-ask spread and prints.

We knew the behavior of a couple of specialists so well that we'd always play games in the office and talk about what we thought the guy looked like, what we'd say to him if we were to go out for a drink with him after work. We could actually feel if one specialist was calmer than another during times of

heavy trading. These days, with everything going electronic, you don't get that same feedback. But I still believe that with enough experience, you can begin to anticipate moves in whatever market you are trading just from watching how it moves day-in and day-out.

We'd also listen to audio from the S&P 500 futures pit. Even though we weren't trading futures, often times we could hear the noise in the pits increasing just a few moments before trading sped up on NYSE stocks. So, we would listen to Ben Lichtenstein, who does [TradersAudio.com](http://TradersAudio.com) still to this day, and this was maybe ten years ago. He would call where the S&P futures were going and who was actively buying and selling. He would say, "There's paper in the pit," or "Paper buys," and announce where the prints were on the S&P futures. He'd announce when institutional sellers were starting to come into the market, and so forth. All the while, you could hear the low roar of the pit traders in the background, and it would get louder and faster when things were speeding up.

What would happen is when the S&P futures start to move, obviously the big listed stocks that make up the Dow Jones Industrial Average would follow very closely behind to catch up to the S&P futures. So, we would hear if there was big movement in the pit, and we would almost immediately see that translate over to movement in the stocks. The S&P floor noise and information would give us a slight edge as to where the big stocks would go. If we heard movement in the pit, and a buyer stepped in and pushed the price higher, we would jump in and get a buy order in on the New York Stock Exchange, and then watch how the specialists would handle the incoming order flow. We would then scalp in and out for ten cents or fifteen cents and do that twenty, thirty times a day.

**Bourquin:** Is the S&P futures pit still a viable leading indicator for short-term traders?

**Gordon:** Yes, to a certain extent, but not in the same way it was back then. I think the markets are a lot more complex and more efficient now. The spreads are much tighter on stocks because of penny pricing, whereas it used to be in fractions. The pit noise in the S&P futures can still be valuable to a trader in order to get a feel for the panic buying or selling, but it happens much faster now. Plus, now you've got algorithmic, high-frequency trading to contend with, which has changed things quite a bit. We were operating within seconds to take advantage of that delay, but that delay is gone, for the most part. The edge we had in those days—where we could get in and get out quickly because the futures market was moving ahead of it—is gone.

We could see the writing on the wall and decided it was time to move into the foreign exchange markets and trade currency. It's "adapt or die" in trading, and if you aren't able to change or tweak your trading methods as times change, you'll eventually stop making money. Nothing works forever.

Also, when I think of trading, it's a lifestyle business. To trade short-term all day—banging out thirty to fifty trades back and forth every day, trying to scalp a nickel or dime every time—after a while, you'll get burned out on that style. There's a lot of energy that's required to operate at that level, so from a trading lifestyle point of view, I knew eventually I would have to make a change. That frenetic pace every day can really start to wear you down.

**Bourquin:** Most day traders, when you talk about the early days of day trading, they started out on SOES [Small Order Execution System] and NASDAQ stocks. But you started out trading NYSE stocks. Why?

**Gordon:** The “SOES bandit” style of trading was popular a few years before I got into the markets. Dave Floyd did a lot of NASDAQ trading in the office in San Diego before I was hired. He was very active in the NASDAQ. I think Dave would tell you, his office had a couple of days where their volume alone represented more than 5 or 10 percent of the volume traded on the QQQs. So, in the late nineties, they were doing a ton of volume on that NASDAQ ETF. But then, I think after the internet bubble burst and all those tech stocks tanked, they started to go to New York Stock Exchange stocks because they realized they had a few-seconds edge by watching those S&P futures and getting to know the behavior of the specialists.

It goes back to the fact that with NASDAQ stocks, you're dealing with tons of market makers and ECNs who are providing liquidity. Whereas with the NYSE stocks, there's one guy running the book, which is the specialist, and there was an edge to be exploited there because, for a while anyway, it was less efficient.

**Bourquin:** Were you using any technical analysis when you were doing that, or was it just, “Listen to the pits and then go jump in front of it” on the NYSE?

**Gordon:** I was using charts, but it was very basic technical analysis. On my screens, I would have a one-minute and five-minute chart of the S&P futures, and a one-minute and five-minute chart of whatever stock I was trading at the time. On those charts, we would have Stochastics, Bollinger bands, and maybe a couple of moving averages.

The way we used moving averages was this: we knew the twenty-period moving average on both the fifteen-minute and sixty-minute charts was important to the market and that other traders were watching that price level. There always seemed to be a lot of volume around that area. But we were trading on the five-minute chart, so we wanted to monitor that level on our shorter-term charts. Doing a bit of math, we realized the 240-period moving average on a five-minute chart showed us the equivalent of a twenty-period moving average of a sixty-minute chart; those same levels but on our short-term charts.

Ultimately, we wanted to see the twenty-period moving average on multiple time frames. That's where there'd be a lot of volume. So, we looked at the moving average to know where volume would be or orders would accumulate, but then we looked at the stochastics to just confirm that the market was pulling back. When the stochastics began to turn up, we'd jump on board and scalp an upside trade.

**Bourquin:** Do you remember what your average share size was for a position back then?

**Gordon:** I started really small. When I first started trading, they started us with a limit of one hundred to two hundred shares. Once you could prove you could make money and be disciplined at that size, you would get bumped up to five hundred shares, and then one thousand shares, and then two years down the line I was calling our risk management bosses up in San Francisco, trying to get my limit upped to two thousand shares. Eventually I pushed it up to five thousand and then up to ten thousand shares. So, I would carry five thousand and ten thousand share positions for just a few minutes. In order to really make money scalping, you had to be trading that kind of size.

**Bourquin:** How did your salary look back then? Did you have some sort of base or draw plus a portion of your profits?

**Gordon:** There was no salary or draw. It was all based on what you made in profit. Back then, the deal was you'd earn 50 percent of what you made, and the firm kept the other 50 percent. And then, of course, you had to pay taxes. I was making a living, but only trading five hundred shares that first year. It was hard to make a living, especially living in San Diego. So, I lived very modestly for those first couple years. I think I ate about four to five meals a week at In-N-Out Burger, which I never grew tired of. Now that I live in New Jersey, I miss In-N-Out Burger! But I definitely paid my dues. Any new trader who thinks they are going to sit down at a computer and make big money right away as a trader is probably going to be disappointed. But it was worth living lean those first few years to learn how to trade.

**Bourquin:** You mentioned your transition to Forex at some point. What was it about your NYSE trading strategy that changed and made you decide to look elsewhere?

**Gordon:** It was perhaps 2003. I vividly remember the last big day we had trading on that style. It was right around the time they arrested Bernie Ebbers from WorldCom. I remember we came in the next day and the S&P futures were down maybe fifteen points—and this was when the S&P was around 850. As a percentage, that was a big move. The volatility was tremendous. I remember that the other traders in the office and I just killed it. We made the most money we ever made in one day, scalping back and forth. Dave and I actually finished with profits within a couple of hundred dollars of each other at the end of the day. That was just about the low in the market.

So, to answer your question, when the market started coming back from that, I think it was the 2003 low, the volatility just died. The style of scalping we were doing at that time really relied on a lot of volatility. Without the constant movement each day, making money as a scalper is extremely difficult. The market rallied from there, but the S&P went from trading twenty or thirty handles [index points] per day down to maybe eight. When we have no intraday volatility, that's when things really started to get lean for us in terms of trading opportunities, and Dave actually started trading the currency markets. So, he got me into it at that point and we just started trading the FX markets.

I really enjoyed trading with that office, but I wanted to expand my experiences a bit, so I went up to Los Angeles to work for Larry Connors at [TradingMarkets.com](http://TradingMarkets.com) and write about the currency markets. But Dave and I continued to stay in contact, and I continued to trade the Forex markets in my own account.

**Bourquin:** Let's talk about your next move to [FOREX.com](http://FOREX.com). Did you land there as a trader, or were you doing something else there first?

**Gordon:** I had been on the West Coast for a good three years, and I felt like heading home. You forget how bad those winters are after you're gone for a while, so I was ready to come back East. I was first hired to come in and write their Learn to Trade Forex courses. There wasn't a tremendous amount of information about Forex trading back then, so I set out to put together a strong intro course on how to trade currencies. So, originally, I was not hired as a trader.

I came on board and developed their first currency trading course. I was also doing some institutional sales, helping set up their big Introducing Broker [IB] relationships and communicating with money managers about bringing some of their money to [FOREX.com](http://FOREX.com). It was during that time that I really learned the business side of the spot Forex market and how the Forex brokers worked.

After a while, I started writing a daily report called "Strategy of the Day" for clients. Actually, at the time it was just for internal salespeople, so that they could get clear and straightforward analysis of the markets with charts to have something to talk about with their clients. Every day I would point out several things to watch on various currency pairs and offer some commentary along with the technical analysis. Basically, it was simply what I personally was watching in the markets in my own account. It served two purposes. First, by writing down my thoughts on the market, it really helped me to solidify my strategies in my own mind. Second, it helped to educate the sales team so that they could speak intelligently about the currency markets when pitching ideas.

I did that for probably six months or so, and then Mark Galant, the CEO at the time, started reading it. He thought it was well done and decided that he wanted to make it a research piece that would go out on the trading platform

to every account holder. From there, “Strategy of the Day” for clients was born. I think that was in 2005. That strategy report really helped formulate my ideas, and I started to build quite a following from that research.

From there, I continued to trade my own personal account. I was not trading in our asset management program yet [trading firm money], but I was working very hard to show I could trade well consistently and get to that point.

I wrote an e-mail to my boss at the time, Glen Stevens. I had a unique idea as a way to get into that side of the business. I asked if I traded my personal account for three months and was profitable three months in a row, could I get a shot to trade on the hedge fund team? At that point, it was like a \$100 million hedge fund. He gave that challenge the OK and agreed it was a good way to prove my trading ability. So, I worked hard to make profitable trades, was profitable three months in a row, and earned a seat on the fund. I think I was the youngest guy on the trading team of the hedge fund at the time.

**Bourquin:** Going from stocks, especially NYSE stocks, to spot Forex is a huge jump. What kind of things were you trying early on in that transition to get a feel for how to trade that market?

**Gordon:** That’s a great question, because you can’t scalp FX just because of something a specialist or market maker is doing. There’s no central marketplace for the spot Forex market, so I only know a few guys who can successfully scalp, and then only for short periods of time. It has always been a much more technically-based market. When I was at [TradingMarkets.com](#) and during my time at [FOREX.com](#), I was really studying a lot of different methodologies, because I knew short-term momentum trading would not work in the FX market. What I really needed to do was hone my technical skills in reading charts.

I started doing that “quest” for the Holy Grail, just like every trader does at some point in their trading career. We all begin looking for the magic setup or a magic methodology that will work in all markets and all time frames. Of course, it doesn’t exist, but you still have to find a strategy and method that fits your personal style and risk tolerance. I searched high and low for a good couple of years before I found my current methodology.

I really had to work hard to make the switch from trading momentum to trading on a more technical level based on charts. The point is you really need to get more technical to trade FX, because it’s so much more of a chess game than a boxing match with an opponent [the specialist], which is what day trading equities was.

**Bourquin:** I know that at some point you settled on Elliott Wave. When did that happen?

**Gordon:** That happened early in my time at [FOREX.com](#). I had some knowledge of it, and we had access to a bunch of investment bank research. [FOREX.com](#)