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TRADERS' Interview

Jeff Hughes



When Canadian Jeff Hughes got his foot in the door with one of Canada's five major banks, he believed that he had found the job he was looking for. However, that turned out to be only partially correct. His interest in the markets was sparked later when he became licensed to sell mutual funds for the bank. That started Hughes on his path to becoming a full-time forex trader. Initially, in 1997,

Hughes first started buying stock through a couple of accounts via the bank's discount brokerage. He started to lightly buy and sell stock with a long-term time horizon. However, by 1999, when some of his technology stock picks churned out great returns, Hughes began to consider trading as a full-time career. Today, he trades full-time, while simultaneously caring for his 16-month old daughter.

also known as Mr. Mom

TRADERS': What did you think of trading before you started in the business?

HUGHES: I always thought that trading was something I wanted to know more about. Words that would come to mind about trading and traders would include gutsy, exciting, rewarding, entrepreneurial, and challenging. That is what I find it to be today, so my hunch was right.

TRADERS': What enticed you to start trading?

HUGHES: By mid-1999 I was making more money per day on the stock market than at my job, and I found it very difficult to spend my non-work time on bank courses like I was supposed to. Instead, I was devoting every available free moment to studying my newfound success in trading stocks. In early April of 2000, I left the bank and began trading technology stocks full-time. In fact, I began trading full-time just weeks after what turned out to be the top of the Nasdaq's amazing bull market run.

TRADERS': Did you find immediate success?

HUGHES: Success at the beginning? Not really. I, of course, had made some incredible gains leading up to my decision to go full-time. But in the eight months that followed my move to full-time trading, the Nasdaq fell around 2,500 points in about nine months, and I had made all my money in an upward trending market.

TRADERS': What was your account balance when you started trading?

HUGHES: I commenced trading stocks back in 2000 with what I believed was a smaller account size than typical. A lot of people had large account sizes in 1999-2000 though. With regard to my forex trading, my beginning account size was small by any scale imaginable.

TRADERS': We're curious about the details. How much money did you have in the account?

HUGHES: This is laughable, but I actually opened my mini-forex account with \$500. I traded the account to over \$5,000 within four months, still a laughable figure of money. But I find I've been able to trade this and another small account I was able to build upon, and make regular withdrawals, as a partial sum of my income, on a monthly basis.

I actually won the second account of \$1,000 funded by *Forex.com* as one of the twelve finalists in their 'Win a Mini contest.' I have continued to trade this account along with my original. I, of course, still trade stock options at times.

TRADERS': Why did you start trading forex? What is so attractive about this market?

HUGHES: I was intrigued by a number of things I was reading in trading magazines and websites about forex trading and the availability of forex trading accounts with minimal funds.

A number of things were attractive, but I think reflecting now, that two main things enticed me to look closer. Firstly, the 24/7 market hour structure, and secondly the amazing 200:1 or 100:1 (depending on account type) margin available. I was also interested

in the 'no commissions' idea, and the fact that technical traders were finding that forex markets seemed to adhere more closely to technical indicators. My success on their demo bridged into success, (percent-wise, trading my mini account) and then of course *Forex.com* had their "Win a Mini" trading contest to win a Mini Cooper car. The next *Forex.com* "Win a MINI Trading Contest" starts in February 2005. Visit www.forex.com for more details.

I qualified for that in February, the first of the four months the finalists were decided, and then was blown away when I won the car in June.

I think traders around the world should welcome the 24-hour trading from Sunday evening to Friday evening. It allows me to be flexible with my schedule. And, of course, there is no extra calculation of varying commissions, only the spread. I don't think the average equity investor realizes the potential return on investment power of the 100:1 or 200:1 margin available in the standard or mini-forex accounts. For instance, a mini account holder can buy or sell \$100,000 of a currency with a mere \$500. This position would only need to move 50 pips to earn a 100% return (but of course, the leverage works both ways).

TRADERS': Many traders who start with small accounts are blown out of the market in a few weeks or months. You started with a very small account and trade full-time now. Do you think that's a feat that many traders can duplicate?

HUGHES: I admit that my difficult experiences trading stocks and options had prepared me quite appropriately for the trading I do now. I don't believe that trading a small account means failure in the forex markets by any means. The mini account can be opened with minimal funds and offers 200:1 margin. This really is an amazing combination of opportunities. After all, one of the main criteria for successfully making money is to use as little money or someone else's money to make money. You just have to be willing to go to school.

In other words, you need to learn the basics of trading. Try out your ideas on paper; try out a forex dealer/broker demo; open a mini account with minimal funds; trade small amounts, as little as 10,000 (one lot) per trade. Increase size slowly while size of capital increases. I think other traders can duplicate this. I have people asking me 'how I do it,' and it's not something I can explain to someone over dinner, but what I do is something any trader can do.

TRADERS': What kind of trader are you?

HUGHES: I consider myself to be a technical trader. Here's why I think that. I trade mainly off of support and resistance levels, and trendlines. I buy and sell based on Moving Averages, Slow Stochastic, and Average Directional Index. I make my decisions based on candlestick charting patterns like inside days, doji, and shooting stars.

That said, I think it's prudent to be well aware of the fundamentals, where the broader trend is concerned anyway. I say this, because the forex markets focus so intently on a relatively small amount of economic data and interest rate decisions. Assessing changes in sentiment is just that much easier when

F1) Trading platform

FOREX.com's trading platform, which features an integrated charting tool. Hughes uses a 5-minute chart with Fibonacci retracement and a 10-period and 40-period Exponential Moving Average (EMA) to identify entry/exit points.



you are at least aware of the data in addition to the chart patterns and indicators.

TRADERS': What is your most important technical tool and why?
HUGHES: You are going to make me choose just one? I find that different time horizons can drastically affect how one might rank the importance of different technical indicators. On longer-term charts I have two have trend lines; I could not live without these.

A long-term trendline that either holds or breaks can tend to indicate a dramatic shift in sentiment. On medium-term charts I cannot live without my support and resistance levels, my Fibonacci retracements, and my spikes high and low. Within the confines of the long- and short-term, the strength or weakness of support and resistance levels will decide the movements within the longer-term trend. On short-term charts I have to have my Moving Averages, as they have always been the best indicator for me where position entry or exit is concerned.

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

HUGHES: I like to have three charts of the same currency up on my screens. I'll have a daily chart up to ensure I am trading within the longer-term trend. I'll have an hourly chart up which I'll primarily use to make my trading decision and I'll have a 5-minute chart up to choose an entry/exit point. You have to be able to envision the trade unfolding beforehand. I glance up and instantly see:

1. The price is above the 200-, 100-, and 50-period moving average on my daily chart and I know the longer-term trend.
2. I look at my hourly chart and see the slow stochastic is in oversold territory, and that we are approaching a 50% Fibonacci retracement support level. I believe that Fibo-

nacci retracements are very relevant in forex trading.

3. I look at my 5-minute chart and see that my 10-period Exponential Moving Average has crossed above my 40-period Smoothed Moving Average.

I have tried all kinds of combinations and these are the ones that work for my eyes. I see what I want to see or not, in a matter of about 15 seconds.

TRADERS': Why do you think, that Fibonacci retracements are especially important?

HUGHES: They are important because traders think they are important. It is absolutely amazing to me to watch traders worldwide buying and selling based on these Fibonacci retracement levels. But because they are respected and honoured by traders around the world, they are a self-fulfilling prophecy. They work because everyone is using them. I'm not a mathematician, but they are a remarkable appraisal of human nature built into a mathematical equation. It is human nature, after all, that after a move of selling and buying abates, that some will feel that it went too far.

TRADERS': How long are your typical trades?

HUGHES: Typically my trades last one to three days. Of course this is contingent on whether they go my way or get stopped out. I'll make a large number of 20-minute trades on a range-trading day, and I've held a trade in a trend for three to four weeks.

TRADERS': Are you a systematic trader?

HUGHES: The term systematic implies that I follow a step-by-step procedure or make all my trades the same way, and I wouldn't say that that is the case. What I would say is that my *preparation* is systematic. Due to my lifestyle I do a fairly large amount of preparation for my trades the night before or whenever I can. I flip through the charts, looking for charts at or heading towards a potential set up I like. I take note of all the Fibonacci retracement numbers. I take note of the tight ranges or inside days, which inevitably lead to a break out one way or the other. I always know when the economic data or decisions are coming out and will actually plan trades surrounding them at times.

TRADERS': How many hours do you work per day?

HUGHES: It varies day-to-day, depending on how I appraise the markets that day and whether or not there is consolidation or movement. I try not to spend too much time trading if I don't need to; because at the moment, this time could be spent with my daughter, teaching her, playing with her, encouraging her, etc. That said, she has to sleep sometime. I tend to trade a solid three to four hours in the daytime through her naps and at other times. Then I'll trade another four hours or so after my wife gets home in the afternoon and before I go to bed. This is my routine from Sunday evening to Friday afternoon.

TRADERS': Where does discretion come in?

HUGHES: Sometimes you have to be able to stand back and see that what's going on is outside the bounds of normal. Whether it's a breakout from a trading range or a fundamental shift in

sentiment; this is where discretion comes into play. The bulk of your profits in any given month can be the result of how well you are able to let the winners run. Let's face it; a lot of the time, we're plucking profits out of a fairly small range-bound currency pair. Getting a nice entry and then managing that profit through a major move of 500-750 pips is like 15 to 20 nice range trades.

TRADERS': Is there something like the perfect system?

HUGHES: I don't think so, but who knows? Can a computer fully comprehend the emotions going on in the heads of millions of traders worldwide? Because I think a perfect system would have to be able to do this. The market is ever changing and evolving, so you're constantly changing your own trading as you go along in order to adapt. It's interesting to realize how much trading is like trying to survive. It's really those who can adapt to varying market conditions who will be able to make a dependable living for any decent amount of time. I think traders go through periods where their systems work close to perfectly; and of course, you can start to think that nothing could go wrong and then, oops. The successful traders are the ones who adapt during the times their system is failing.

TRADERS': Do you mix timeframes?

HUGHES: Yes, in fact I think this is really the best way to see the whole picture clearly.

TRADERS': Do you work more with indicators or patterns?

HUGHES: I tend to gravitate to the chart patterns, but I seem to have more success with the indicators at times, and I find combining both to be the best of all. As long as you understand what you're looking at, then why not use every tool you possess to tilt the risk in your favour.

TRADERS': Does volume play a role in your trading approach?

HUGHES: That's an interesting question where forex is concerned because there is no direct contract volume associated with forex. But generally I believe volume is a very important aspect of trading. You should really know the following about volume: increasing volume with an increasing price translates to potential for a move higher; increasing volume with a decreasing price translates to potential for a move lower; decreasing volume with an increasing price translates into a potential slowing of the trend, and a possible reversal or retracement. Decreasing volume with a decreasing price translates into a potential slowing of the trend, and a possible reversal or retracement. There is a way to monitor volume in forex using certain charting programs, a volume histogram, but I don't use it.

However, in the evenings when I'm able to watch the markets closely, I can see the volume actually pick up in the movement of a chart and this is something I use.

TRADERS': How do you test your trading ideas?

HUGHES: I test trading ideas all the time using smaller lots. Sometimes something will come along that works and it will be

F2) Hughes' charts

Two additional charts often used by Jeff Hughes, a 60-minute chart with a slow stochastic that he uses to make his trading decisions, and a daily chart showing a 200-, 100-, and 50-period EMA. Hughes refers to the daily chart to make sure his trades are in line with the longer-term trend.



successful right away. But it will keep me awake at night, so I try to tweak it so I can live with it. It's an interesting question and a dilemma that traders deal with. You have to be willing to learn, because there is no such thing as a perfect trader. We all know that in any given trading day, numerous opportunities exist that we miss.

TRADERS': Are you still looking for new set-ups?

HUGHES: Yes, I am always looking for new set-ups. The market is an ever-evolving creature that requires you to be versatile and adaptable.

TRADERS': How do you find them?

HUGHES: You have to be willing to take the time and observe. I have pages and pages of notes, if something happens I write it down. If I miss a trade, I write down what happened. If a trade gets stopped out, I write down my best approximation of why it did so. If a trade does better than I thought it would, or better than it deserved to, I make notes of the circumstances. At the end of a day, I could have 10 pages of scribbled notes, which I try to decipher during my evening of preparation for the next day. Ironically, what really works for me is the fact that I don't have the luxury of an uninterrupted day to trade, and that I must prepare much more than most would need to.

TRADERS': How many different set-ups do you use for your trading?

HUGHES: I use any number of set-ups or combinations of them. I love to play reversals; I've always been a devil's advocate. I'll make note of a bullish engulfing pattern on my candlestick charts, and the potential for the pattern to be confirmed. I'll have noted the nearby support and resistance levels (whether they are Fibonacci retracement levels, trendlines, or previous reaction

lows/highs). I'll watch for oversold/overbought readings on Relative Strength Index or Slow Stochastic and look for positive divergences.

I'll see signs of buying pressure coming in. That is the volume I was speaking of. We're talking about a pretty compelling signal for a reversal, and the thing is, you can see these set-ups all the time, sometimes just a very short-term reversal on a 5-minute chart, and sometimes a major change in trend on the daily chart. I take my profits however I can get them.

I rather like to make a trade on a 50% retracement of a large move if the 200-day moving average is providing support or resistance in that area. I find that the 20- and the 80-pip levels seem to act as support and resistance levels more often and seem to be good places to initiate trades or take profits.

TRADERS': How do you manage your risk?

HUGHES: Of course, I manage my risk by using stops, but it's really all about the work I do the night before. There are potential trade set-ups that are just less risky. You have to do everything in your power to tilt the odds in your favour. My lifestyle of being a Dad/trader requires that I do the trading work the night before, and that I be aware of what each day may present to me. As I already mentioned, I make notes of support and resistance levels. My charts are a kaleidoscope of lines that I've put in the night before showing trendlines, Fibonacci retracement levels, previous lows, etc.

I'm aware of what data is coming out the next day and when, and will program reminders on my Ipaq pocket PC, or even just write them down on my next day's worksheet. I adjust my various computers to the charts I expect to follow closely the next day; some of my charts are smaller than others, based on what currency pairs are doing interesting things. These are all things that reduce the risk I take in every trade. Being prepared and the careful usage of hard and trailing stops makes my day as a trader and a Dad possible.

TRADERS': So, your stops are based more on technical issues than on money management, correct?

HUGHES: Perhaps, but I would say they are based on both. My stops will usually be set up on technical support and resistance levels, rather than say a set number of pips. The set number of pips just doesn't make sense to me, and so I believe that basing stops on technical support and resistance levels is just smart money management. Setting up a stop for a set number of pips is ignoring the fact that there is no basis for your trade to work. The pair may just be cycling up and down a little more than usual, and you've stopped yourself out for no technical or fundamental reason.

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

HUGHES: Wrong trades are usually determined on their own. Proper use of stops takes this decision off of your shoulders. There are times when I will remove a stop if I feel that I've missed something in my preparation.

However, I just want to go on to something else, because I trust my preparation, and I know that there is another trade setting up somewhere else. Sometimes you have to step in if you can see it's not acting right, and if that's the case, then I will pull the plug before we even get to the stop.

TRADERS': Is money management an independent topic?

HUGHES: Money management is an integral part of trading. You need to know one thing if you are beginning to trade or thinking about it: all traders lose money; it's part of the business of trading. Approximately 95% of traders lose money during their first year in the markets. It is the management of losses that determines whether you can make a living at it. It is absolutely vital to protect your capital. It's like a gunfight, and you just want to live to fight another day.

Until you have at least a few years under your belt, and you can read a chart in a 5- to 10-second glance, you should be leaning towards the conservative side of things and getting out of trades if there is any technical or fundamental reason to do so.

TRADERS': How much of your equity do you risk per trade?

HUGHES: I risk about 5% per trade. This can vary in the 2.5%-7.5% range. I will adjust the percentage based on how the trade suits my risk criteria and where we are within the short-, medium-, or longer-term trend.

TRADERS': How do you manage your open trades?

HUGHES: I peel in and out of trades. I raise or lower stops to breakeven if they go my way. I take half the profits at pivotal support/resistance points in the move and let the other half run with a trailing stop. I ease into or out of a position with one-fourth of that position and then another one-fourth as I see a trade set up potentially beginning or ending. I trade two separate accounts, and try to let a nice entry ride within a larger trend, while I trade the same pairing up and down as it cycles within the longer-term trend.

This is another simple way I can keep things straight in my mind. Some of my ideas are quite simplistic, but they are this way for a reason. All I do as a trader and all I aspire to achieve in any given trading day really have to come second after my daughter.

This is the right question to answer with an explanation of my computer set-up, because I use the latest technology to effectively manage my open trades. I have a pair of monitors on a P4 computer on the main floor of my home, and the same on the lower level of my home. I have a wireless-G network that basically makes my home a high-speed wifi hotspot. That allows me to use my Ipaq pocket PC to trade or check rate quotes anywhere in the house. If I feel that I cannot properly interact or care for my daughter, I put my Ipaq into its holster case attached to my belt and keep tabs on things from wherever we need to be around the house. I can see my monitors from about 70% of the house. When my daughter and I go out, I tend to lighten up positions; and I carry my Ipaq with me and switch to my Wireless GPRS modem.

It's a juggling act, and obviously I'm a Dad first and

foremost, so sometimes I close up shop and I'm just a Dad. But it's remarkable how I find that I can be a high calibre Dad and a high calibre trader through the use of these tools I have at my disposal.

TRADERS': What kind of stops and/or profit targets do you use?

HUGHES: I use hard stops and trailing stops on trades. The difference between successful and unsuccessful trading is the usage of stops. Enter a hard stop as your trade is initiated. Run a real or mental trailing stop when they go your way. Keep a tighter trailing stop in a range and try to give more space for the trending stop.

I tend to use a flexible profit target. I have a target in mind but I also know that it's how well you let the winner's run that will determine your overall profitability. I won't have an order entered to close the trade, except under odd circumstances. I monitor with alerts and make a judgement call on whether I think the move will take a rest before it resumes or reverses. When setting a trailing stop, it has to be a compromised distance between how much you are willing to give back and how much wiggle room you can live with, so that it will keep you in a trending trade.

TRADERS': In terms of executing trades, is that a subjective process or do you do that mechanically?

HUGHES: Interesting question, and at first I believed myself to be executing trades subjectively. My preparation is mechanical. This can vary in my trading as much as my days can vary in how they play out. My lifestyle requires that I be prepared. I need to know where a currency becomes interesting to me, and then I examine how or why we got to this place in order to make a final decision; but perhaps as many as half of my trades are purely mechanical in nature, due to the very nature of my lifestyle. I've done the work; I can see at a glance the price action and the chart, so I make the trade.

TRADERS': What is the relation between your winning and losing trades?

HUGHES: They all start the same way, right? They are either going to go up or down eventually, and that's all they should have in common. If it doesn't go your way, get out. Your time and capital are better spent on the next set-up. In fact, the trade that went against you can set up into a great trade revisited minutes, hours, or days later.

TRADERS': What was your worst drawdown?

HUGHES: I had some tough knocks right off the bat. I began trading full-time just weeks after what turned out to be the 5,000 top of the Nasdaq. Before forex, I traded primarily options and once, early on, I really piled into a call with only a few days until expiration and lost most of my investment. I had a number of bad trades right away in April of 2000, as I thought stocks only went up.

Just kidding, but you know what? Psychologically, I sent all

those memories packing, otherwise I wouldn't have made it to this point. I have not really had any terrible drawdowns in my forex trading, but then again, I learned enough valuable lessons before I got here to actually avoid those pitfalls.

TRADERS': What do you find most frustrating about trading?

HUGHES: The most frustrating aspect of trading for me is preparing for the possibility of a set-up the night before and then watch the set-up evolve, but then miss it. The work of finding the possibility of the great trading set-up the night before is most of the trade for me. So not being there right at the optimal entry can be frustrating. That said, my daughter comes first, and she is an amazing little girl who inspires me to keep going even on the toughest days.

TRADERS': When did you realise that trading wasn't going to be just an attempt in the markets, but was going to be a full-time career for you? Or did you sense that from the beginning?

HUGHES: When I first started, I thought, 'this is what I am going to do.' Then, when it became difficult right away and what I'd been doing before the bear market didn't work anymore, I had to do some soul searching. I had to step back, try different things, and reduce my trading size drastically. When I started to make fairly consistent profits in the middle of the worst of bear markets, that's when I began to feel it was something I could do. However, my recent trading success in the forex markets has brought my confidence and determination to a whole new level, where it is not a matter of knowing that I can do it, but rather how can I do it better. Trading is dramatically about confidence; and it will be shaken from time to time. However, if you hold on through the tough times, you will reap the rewards. Write it all down and learn from it.

TRADERS': Where does the psychological element come into play?

HUGHES: It's all about the battle with yourself. Really knowing this is one of the big steps in becoming successful at trading. Once you realise this, I mean really realise this, then you learn to step back and not to make those hasty, emotional, unplanned trades that inevitably turn to losses.

TRADERS': Any words about fear, greed and self-esteem?

HUGHES: Every trader must deal with fear and greed. You have to know that trading is not a get-rich-quick scheme. It's a business, and you are all levels of the company in one: manufacturing, accounting, information and technology systems, CEO, etc. Losses are the expenses of the business. The markets move on fear and greed: fear of missing a run, or fear of missing out on a possible trade, or fear of losing money. Greed can be worse, as it will not only get you into the markets ill-advised, it will cause you to turn a profitable trade into a hard-to-digest loss.

TRADERS': What do think is the difference between you and so many other traders who tried and failed?

HUGHES: Persistence. I kept trying new set-ups and new markets until I found my niche. I stayed conservative with the size of my trades until I could see a trend of positive results. The most important element of all is a rock solid support system. My wife, Claire, has been patient and believing when there were shadows of doubt and misgivings from most of those around me. That is a necessity in this tough, challenging business.

TRADERS': Aside from zipping around in your new Mini, how do you enjoy your free time?

HUGHES: Trading is a lifestyle that can suck you in, so I try to balance that by gravitating to challenging leisure time activities (both mental and physical), like regular work-outs or playing the guitar; *things that require concentration*. But mostly I just like to get away for a day of fun with my wife and daughter.

TRADERS'