

'Confessions of a Futures Trader' Andrew Lythgo

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Reviewed by: Gordon Gray - **Australian Investors
Association**

'Confessions of a Futures Trader' is exactly what the title says. This is a book written with punch, pace and wisdom. It gives the reader a personal window into the investment products that fall into the somewhat mystical world of 'Futures'

Andrew Lythgo writes in a down to earth and frank style. The reviewer felt that each chapter was probably dictated whilst the author flew between appointments as 'an adviser and private discretionary fund trader' and his home on the Gold coast.

This is a rags' to riches story, written with a refreshing ring of truth and streetwise reality. I do not know how you judge books. This reviewer uses the highlighter method. Armed with a highlighter I mark little gems from the tome as I read along. This book really only runs for a hundred pages or so. As I flip through I see that 95% of the pages have one or more gems marked. I found the author's insights on Futures to be readily transportable to all facets of the investment spectrum. This is probably due to the underlying theme on investor psychology that permeates this book.

Written from his early experience in the trading pits, the author makes the point: "The success of a trader will ultimately depend on his or her ability to handle the emotional and intellectual stress of a range of trading situations". (Preface ix). In the reviewer's opinion if you were to substitute the word 'investor' for trader in the above you would have the reason most people join the AIA. The author goes on "...It is essential for an individual undertaking a new career as a trader to identify which pressure profile is most suited to his or her personality." His favourite anecdote is "Anyone can win, first you must learn how to lose...losses, sometimes large ones

will happen. Dealing with the conflicting emotions when these arise is the cornerstone to a successful life as a trader."

The book finishes with pocket biographies of a number of real characters that have risen to the top in Futures. United in their success has been their 'focus entirely on the end product - 'making money''. The author reflects that "...If patience and logic and a steady persona are your attributes, do not try to become a huge day trader...the secret is to play to your strengths rather than pander to the textbook definition of what a trader should be." (Page 108)

So what are Futures? "A Futures contract is a legally binding agreement to buy or sell a commodity or financial instrument at a set price sometime in the future".(Page 9)

There are two basic strategies with futures.

1. Buying a futures contract (commonly known as going 'long'). The buyer enters into the contract because he feels the market will rise.
2. Selling a Futures contract. (Commonly known as going 'short'.) A trader 'shorts' if he feels the market will fall.

Either strategy can be closed out by performing an equal and opposite trade (Page 10).

Why do people get involved with futures? The answer is to make money.

The trader does this by "leverage". You pay a deposit for a contracted item, in time the value of the contracted item moves up (as you predicted) and you sell the contract for a (sometimes sizeable) profit.

Remember " the higher the reward the higher the risk". The reason you would read this book is that the more you know about an investment class the lower your risk becomes.

There is a useful section on "Choosing a broker". The reviewer remembers the dry words of an investor many years his senior who said "the cheapest commodity in investments is the brain of a good broker". One of the strengths of this book (besides being focused on contemporary Australian futures market) is the author's ability to clearly explore Trading methods for Futures and Options on futures. There is a simple discussion on technical and fundamental analysis and the author's views on how these can work for the investor.

The reviewer recommends the book to the membership. It is short (takes about 6 to 8 hours to read) reasonably priced, Australian and loaded with 'confessions' that can only absolve the reader from costly errors in judgement. Have a look at this book. Like any good confession it only empowers the person to higher things.

