This Is How a Stock Market Wizard Trades

Minervini began trading stocks in 1983 and faced a number of years of losses. His breakthrough came when he read Richard Love’s little-known book, “Superperformance Stocks”, which outlined the characteristics of the market’s biggest winners. Minervini honed his strategy and in a five-and-a-half-year period generated an average annual compound return of 220 per cent. In other words, a $10,000 account would explode to $3.3 million with those returns. During that time, he had only one losing quarter, when he was down just a fraction of one per cent. In 1997, Mark Minervini won the US Investing Championship with a 155 per cent return. His trading success earned him an interview in one of the most sought-after trading books, Jack Schwager’s „Stock Market Wizards“. The core of Minervini’s strategy is SEPA (Specific Entry Point Analysis), a proprietary computer-driven technology based on models derived from historic winners. SEPA combines quantitative screening, fundamental research and qualitative analysis to identify stocks with the potential for significant price appreciation. In addition to his own trading, Minervini has turned to educating traders with Minervini Private Access. Members gain access to live stock selections and even a live trading room, where Mark himself reviews and explains the rationale of his trades. Based close to New York’s famous Rockefeller Center, Mark still trades the markets every today. Additionally, he runs www.minervini.com and www.markminerviniblog.blogspot.com and tweets alias @markminervini. Once a year Mark hosts a Master Trader Program as a highly exclusive event to learn how to trade his methodology, which traders can enroll through Mark’s website.
TRADERS: How did you first get in touch with the stock market and trading?
Mark Minervini: I dropped out of school in the eighth grade to work as a musician playing the drums in the studio and performing live. A few years later I opened up a brokerage account with a very small amount of money that I earned from working. In 1983 I started trading my own account. My first stock purchase was a few hundred shares of Allis Chalmer. For research, I read the financial newspaper each day and spent a lot of time at the local library. Like most new traders, I did not do very well in the beginning.

TRADERS: What were the ups and downs on the way to becoming consistently profitable? At what point were you able to fully support yourself from your trading?
Mark Minervini: Early on, I made every mistake you can think of. For about five or six years I did not make any money trading; in fact I was at a net loss. If there is such a thing as a natural born trader, then I was an unnatural. Although I had trades go my way from time to time, it was how I handled the trades that went against me that created a problem and hurt my performance. I just could not stay disciplined. It was a real challenge to stick with trading through a long period of poor performance, but I really loved the art of speculation, and that helped me stay with it through the tough times. Even though I was losing, I always trusted the outcome would be worth the wait.

TRADERS: What was pivotal in turning your poor performance to stellar?
Mark Minervini: Taking full responsibility for my results. I knew the market provided incredible opportunity. I knew there were traders out there doing great. It was just a matter of learning how to trade like a winner. Emulating traders that were better than me and learning from my mistakes were both key. Eventually, I acquired the skill to be consistently profitable. Sheer persistence is an amazing antidote for lack of knowledge. I read some important books that changed the way I approached trading. Richard Love’s book, “Superperformance Stocks” really made a big difference. My trading approach stems from Love’s initial impression on me from his writings in chapter 7. Also Jesse Livermore’s “How to Trade in Stocks” was a very important book for me early on. Looking back, what really made the difference was deciding on a particular strategy and then sticking with it. Making a commitment to my style enabled me to become great at something. I realized that I needed to become a specialist. There are going to be times when your approach does not do well and there are going to be times where it does great, but you will never get really good at something if you do not stick with it and learn its strengths and weaknesses. If you are bouncing all over the place and trying all different strategies, you will never get really good at any one strategy. At some point, you need to decide on an approach and make a commitment. Defining your style and objectives makes it much easier to develop and stick to a strategy. Probably the most important turning point was when I started religiously cutting my losses short, keeping them very small. I really started to focus on not losing as my Number One goal. This is the most important area of speculation regardless of style or strategy. To be successful, you simply must keep your losses smaller than your gains.

TRADERS: Can you please briefly explain the basic idea of your SEPA® method?
Mark Minervini: The basic idea is to expose your capital to the best stocks, but only buy them at low risk entry points. Therefore, you cut off the possibility for big losses, but open up the possibility for large gains. SEPA® is a strategy that relies on probabilities and timing. Timing is everything with all speculation. The objective is to use relevant data as a way of increasing the probability of finding a really outstanding situation. This is achieved through lining up my purchases with stocks that display characteristics that we know influence institutional buyers. Fundamental and technical data are also both important. Once I narrow my list down to the best possible candidates, I then look for a low-risk entry point.

TRADERS: What fundamentals are you looking for in a stock?
Mark Minervini: Strong earnings supported by sales and margin growth. I am looking for companies that have something really great going on, which translates into bottom line success. It may not be apparent at a glance. However, the stock could give you a tip off based on how it trades and its reported fundamentals.

TRADERS: Can you provide an example of a low risk entry point on a trade you took?
Mark Minervini: I bought ACAT on 13 January 2012 (Figure 1). The stock gapped up big on huge volume on 28 December 2011. This was an indication that big buyers were coming into the stock. The stock had already been on my radar as a potential candidate based on fundamentals. After a brief consolidation, I bought the stock using a 6% stop. My feeling was that if something is going on here, the stock should continue higher with little pullback. I sold the stock the day it gapped up on a better than expected earnings report. The stock went much higher, but I was happy to make 30% in nine days.

TRADERS: How do you manage your positions in terms of adding or scaling out once you are in the trade, given three possibilities: 1) stock
trades higher, 2) stock trades sideways, 3) stock trades lower?
Mark Minervini: Once I am at a decent profit as was the case with ACAT, sometimes I will hold for a larger gain, and sometimes I will sell half and move my stop up on the remaining half in an effort to extend my gains. Often I will nail down the profit and ring the cash register. I am mainly concerned with making a multiple of what I risked and trying to extend my historical average gain per trade. If a stock trades higher after I purchase it, I look to protect my gain once I get to a multiple of my risk and approach or surpass my average gain. If I generally gain 10% on average, and my current profit is 30% and I was only risking 5% initially, I will not need more than 15 to 20 names even in good times.

TRADERS’: With your exit strategy for winning trades, what is the relation between giving back book profits and leaving money on the table? Is there some kind of optimum?
Mark Minervini: You rarely can trade perfectly, but you can perfectly execute your plan. Although I am always trying to improve and make as much as I can, I do not really concern myself too much with leaving money on the table. Trading is about making more than you lose and doing it over and over again. As a general rule of thumb, if the stock price trades up to my average gain at a multiple of my risk, I rarely let the price turn into a loss.

TRADERS: Are there specific times of the day for you to enter trades? If so, why, and at what times of the day do you avoid trading?
Mark Minervini: I do not avoid a trade based on the time of day. I make a trade when the stock is set up and starts to move in the direction of my trade.

TRADERS: Which type of order do you use to get into a trade,

due to stocks gapping down massively?
Mark Minervini: Yes, of course; every trader will at some point. To help protect against taking a big hit you should not put more than 25% of your capital in any one position. On the other hand, you do not want to be too diversified; 8 or 10 positions provide enough diversification, if you cut and limit your losses on the stocks that move against you. Certainly, you do not need more than 15 to 20 names even in good times.

TRADERS: Did you ever experience severe losses due to stocks gapping down massively?
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TRADERS: Did you ever experience severe losses

Mark Minervini bought Arctic Cat (ACAT) on 13 January 2012. The stock gapped up big on huge volume on 28 December 2011. This was an indication that big buyers were coming into the stock. The stock had already been on his radar as a potential candidate based on fundamentals. He sold the stock the day it gapped up on a better than expected earnings report. Note: This is the type of situation you could play for a larger move by holding half and moving stop up to breakeven.

Source: www.tradersonline-mag.com
and do you use VWAP as a criteria?
Mark Minervini: I do not use VWAP as a criteria. I will often break down my order into several trades or blocks. If the stock is liquid, I will use market orders. If not, I may use limit orders on smaller pieces and build into my position. However, I will not buy more than I feel I can safely get out of in a hurry. I am always thinking risk management first. I would rather have a small position than no position or a position that I cannot get out of easily.

TRADERS´: Do you see any influence of High Frequency Trading (HFT) on your orders, or your way of trading in general?
Mark Minervini: Not really, other than it adds some noise. This is one of the reasons I like relatively smaller stocks; they are not popular with the HFT crowd. As a matter of fact, they are not popular period, and that is precisely why they provide opportunity. A stock cannot be very inefficiently priced if everyone knows about it. Facebook is a good example of that. Not to mention, smaller, lesser known names generally can provide stronger growth with less stock in the float. These are the very characteristics that we know make for a potential big winner. Trading is about supply and demand. Less supply means less demand can move the stock. The situation I look for is small supply and big demand. That is how you get explosive action.

TRADERS´: Where do you place your initial stop? Is it based on market structure or just a fixed percentage below entry?
Mark Minervini: Both. If I see a technical point at which the trade obviously sours, I use that level as my stop, providing that it is at a level of acceptable risk mathematically. If there is no technical out, I simply use a percentage stop based on expected gain.

TRADERS´: We would like to dig a bit deeper in how you get rid of losing trades and non-performers. Can you please tell us how you deal with that?
Mark Minervini: My losing trades average about 3-4% during good markets and 5-6% during difficult market environments. My absolute “uncle point” is 10%, but I try to rarely ever get there. Sometimes it is unavoidable because of a gap on news. If a stock is not doing what I expected, that is reason enough to sell. So, it is not a fixed time frame, but rather how things are going compared to my initial expectations. You can always get back in.

TRADERS´: On average, how many of your trades would be 1) stopped out for a loss, 2) stopped out about break even, 3) big profits?
Mark Minervini: I am profitable on about half my trades. I do not rely on big winners to get outstanding performance. My performance is made up of many base hits and a few home runs. I can consistently & regularly get base hits, but home runs are harder to come by.
TRADERS: Please tell us about your view on the difference in the way novice traders approach the markets compared to real professionals.

Mark Minervini: Novices are concerned with being right more than making money. While most new traders do not really realize it, they are driven by ego; the need to be right. This is why most traders do not cut losses. They hate to be wrong. Also, novices change strategy during poor performing periods because they have an unrealistic view to begin with. Novices want too much too fast and do not understand what is important. Even if you tell them what is important, most traders still would not do what needs to be done because it requires discipline, and it requires confidence in your approach. It is all about discipline. And that comes from a belief in yourself and a belief in your methodology.

TRADERS: After speaking about what to do all the time, what are the worst habits one should never be tempted to do in trading at all?

Mark Minervini: You should never allow a loss to get out of control. And, you should never average down, EVER!

TRADERS: What does it really take to adapt and succeed in the very long run from your point of view?

Mark Minervini: It takes a good strategy, but even more importantly, it takes a commitment to that strategy. It also takes a willingness to objectively analyze and learn from your mistakes. When going into battle, you need to know and trust your sword. Knowing your strategy inside out is more important than having the “best” strategy.

TRADERS: What do you think are the greatest issues holding back experienced traders from really breaking through and achieving success?

Mark Minervini: A lack of confidence in their own capabilities and a lack of commitment. Most traders eventually quit and give up. Most traders do not believe they can do really great. In the beginning they do. But as it becomes apparent of the amount of work and discipline it takes, the pie in the sky disappears.

TRADERS: Looking back on your superior career, did trading change who you are? What do you plan to do going forward?

Mark Minervini: It did not change me as a person, just my understanding of risk and that anything can happen in the market, so you must put risk control as your Number One priority. Going forward my goals include staying as healthy as possible, helping others, and being a great father to my daughter and husband to my wife. Trading is my life, but there is more to life than just trading. I am now trying to live a more balanced lifestyle. In my early years, I had 100% focus on my trading and not much of a life outside of trading.