



TRADERS' Interview

**Rickey Cheung**

**System Master**

■ Rickey Cheung came to our attention because of his RC trading systems. The systems recently caught public attention because they are the top ranked S&P-systems in *Futures Truth*, a US magazine that tracks trading systems and makes the results available to the trading community.

Rickey Cheung was born in Hong Kong and went to the University of Houston, Texas at the age of 17. After college he returned to Asia and started working and trading. The hobby in which he takes the greatest pleasure is reading English trading and business books, along with Chinese poems and literature. Rickey quickly admits that he himself was as surprised by his trading results as the general public. In this first interview ever with Mr. Cheung, TRADERS' found out about his astonishing approach (and results!) with trading the markets.

**TRADERS':** What did you think of trading/traders before you got involved?

**Cheung:** I thought it is a challenge and that I should be able to succeed.

**TRADERS':** What enticed you to start trading?

**Cheung:** My Biochemistry professor showed me how to trade soybeans, and that made my interest in the markets grow. In studying for my MBA in finance, I began to actively analyse the stock market. After finishing school I got a full time job in Asia which has nothing to do with trading. But because of the time difference, I could go home from work, have dinner, and then start trading the US equity markets.

**TRADERS':** Were you successful at the beginning?

**Cheung:** I lost every year from the beginning until three years ago when I finally discovered my winning edge. Now things are totally different. In order to win in this money game, the trader must develop something original – that means not following other's ideas. Following others rather than finding one's own method is one reason why 95% of traders lose. Traders must find an original approach based in sound logic.

When I started I possessed no knowledge or skill in regard to programming with Easy Language (a programming language) or using Trade Station. Such knowledge was very limited in Hong Kong (and this is still the case), and this was needed in order to develop my system. I hired an Easy Language specialist and a computer science student in HK, who is still my assistant today. Her job initially was to study and learn Trade Station, and thus to communicate with the Easy Language specialist to help me to program my trading methodology into a system.

We back tested and perfected the code, which was extremely time consuming and costly. In fact, the development of my first system cost approximately US\$50,000. Further, we were really a team of the blind leading the blind because my strategies are unique and cannot be found in Trade Station functions. The specialist had a hard time understanding what I wanted to do, and the student knew nothing about trading. They applied their knowledge the best they could to try and accomplish what I wanted to do. It was a tedious and expensive process with a lot of bugs and misunderstandings; but we were all determined to make the project a success.

To explain in detail the hardships involved in developing my system would require too much time here, but it will probably help your readers if I share a bit of the story. Though I knew I had something fantastic developing, we weren't getting the results I knew were possible. I was very disappointed, but not feeling defeated. I knew I was a very good trader with many winning strategies and sound logic, so the quest continued. I attempted to program more of my trading strategies into the system; however, many of them just could not be done. I am not sure if it was my problem in not being able to explain thoroughly, or perhaps that the specialist couldn't understand what I wanted.

This phase of disappointment was the darkest period; but God has a way of turning things around in his own time. One day, out of pure desperation I picked up the performance results a trading guru had sent me and took a long, close look at the data. I suddenly realized that, while my system was based on the eMini SP, the gurus were testing it with the large S&P data. I was writing my programs based on the SP eMini, which has a dollar value 5 times less than the big SP contract. Curiously, this was how my programming was set up by the specialists and my technicians, thus my results were flawed and none of us had realized that we were not comparing apples to apples. The systems that my system was being compared to were using the big SP to publish their results while I was using eMini SP data.

Once this was recognized, I immediately reprogrammed my system using the big S&P. This took less than three minutes to do. The result was an exceptional, consistent trading system that generated an average of \$600 profit per trade; one that trades infrequently with the highest profits per trade; my RC Success.

The rest was easy. I started developing another system, RC Miracles, which traded more aggressively. RC Success traded only once in three days. By March 2004, I had sent my systems to *Future Truth* for a four month incubation period and the results were released in October 2004,

**TRADERS':** Did you commence trading with a small or large account size?

**Cheung:** Now I have sufficient capital and trade large positions; when I started I didn't have near adequate capital.

**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?

**Cheung:** Small accounts will blow out partly because of the account size; but I think that is at least partially psychological. If everybody tells you that a small account will blow out and you believe it, then your small account will blow out. If you have a winning edge, I believe you can turn a small account into a big one. If you do not have a winning edge, you can turn a large account size into a small one, or completely blow out. Remember, many large accounts get blown out, too.

If one wants to win in this money game, one must listen to others and even try to learn from their experience, but after listening, one must THINK. Even if 100 people and 100 books say that something is true, you must think for yourself and personally determine if you believe it to be true.

People and books will tell you to follow the trend; the trend is your friend. Is this true? Everybody says so, even the 95% who lose say this to each other. Does this help them with trading? No. Why not? It is because they cannot find the real trend, and they don't know how to follow it. When the market is up, it does not mean the trend is up. If it were that simple, there would be 95% winners, not losers. So, how can one follow the trend when one doesn't have the winning edge to detect the real trend or countertrend?

Most traders only see the price of a market after many chats with friend and colleagues or with technical analysis tools. So they see the market price up and think it's in an uptrend. I, with my RC indicators, can better see if it's really in an uptrend. I feel that I can see more than just the price to detect the real trend.

**TRADERS':** How exactly do you define winning edge?

**Cheung:** We define edge as (Probability of Winning X Winning amount) + (Probability of Losing X Losing amount). An example in trading the S&P: (Winning ratio 50%; Profit Factor 2:1), the edge of

this system is  $(0.5 \times 2) + (0.5 \times -1) = 1 + (-0.5) = 0.5$ . This means that for every \$1 you trade, you will get \$0.5 in return. If you trade \$1,000 each time you trade, you'd get \$500 in return. Then, the edge of this system or trader is +0.5. Of course, the higher the number, the better. Now readers should have a better understanding of edge. When the trader has high probability of winning and high winning factor, then he has a winning edge.

**TRADERS':** What kind of trader are you?

**Cheung:** Though I sometimes take longer positions, the majority of the time I trade intraday, taking the profit or loss by the end of the day, holding no position overnight, and taking no risk while the market is not active. Then I start fresh again on the next trading day.

**TRADERS':** Can you give us a little information about how your trading actually works? Is it based on patterns or indicators?

**Cheung:** My trading and my systems are based on indicators and not patterns. Patterns are a reflection of what has already happened, and traders or system developers hope or wish it may happen again in the future. I use RC indicators, which have been designed to be robust and are geared toward the present and future, not the past.

**TRADERS':** How long are your typical trades?

**Cheung:** When my trades are winning I ride them to the close. If they are losing I cut them short and trade another day.

**TRADERS':** Are you a systematic trader?

**Cheung:** I trade with my system and follow it 100% for entry. With the exit I use some discretion; but since I designed the system, I understand the logic behind it and can accurately use discretion to close positions.

**TRADERS':** Do you mix time frames?

**Cheung:** No. Not for intraday trading.

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

**Cheung:** I do not read charts and I tell my students not to read them. Charts are the same as price. They are a picture, and traders feel more comfortable looking at that picture than looking at price. I look at my own indicators which I use to tell if the market has strength or weakness.

**TRADERS':** On which concepts are your indicators based?

**Cheung:** I can share a bit of information, but I cannot reveal much as I have students paying \$200,000 to join my seminar, and I am coaching two at this time in the US. I work with three students per year. Our indicators can move faster than the market price, so we go long or short ahead of the market. We strive to detect the trend reversal earlier than the market price.

I hope this will satisfy some curiosity and I apologize that I cannot give out more details about RC indicators. Students see RC indicators up and they go long. When they see RC indicators down and they go short. It's all about high probability trading with a stop loss.

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

**Cheung:** No, volume is not important in trading futures. It may be important in trading stocks. Some traders may not agree with me. For my purposes though, it is not important. I believe I have better indicators to trade the market.

**TRADERS':** How do you test your trading ideas?

**Cheung:** First, I have no ideas. Allow me to explain that. One must approach the market in a scientific way. One must observe the market and your own chart or indicator, or whatever it is that gives you a winning edge to trade. Then after a period of observation you form a hypothesis. Then you examine and test the hypothesis by backtesting it, and then actually trading it. If it works in the past and present, then you form a theory: a new idea to trade, and hopefully a new winning edge. If it continues to work in the future, then you have a new trading idea. You cannot just think of a new idea; you must observe, then think, try, think, try, then test and trade before a new idea formed.

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

**Cheung:** I researched every weekend for over 20 hours, non-stop, during the past three years, even after I discovered my winning edge. I am still doing it now.

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

**Cheung:** I use 5 different parameters to set up my trade. But all five parameters are built into my RC indicators, so it's easy to use and trade.

**TRADERS':** How do you manage your risk?

**Cheung:** Right when I enter a position I enter my stop. As the trade develops, I will observe and tighten the protective stop. When I'm in profit, this is the easiest situation to respond to: I move the stop to the

entry point plus 0.5 point to cover commission costs. Then I will often ride it until the market closes. It's when I lose that I watch the market even more closely to see if I need to further tighten the stop to cut the loss.

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

**Cheung:** Every trader, winner or loser, will know if the trade is wrong. The difference is that the winner knows more and takes action while the loser knows but does nothing about it.

One thing is very important: to have immediate verification. Once you put on a trade, within minutes it should go your way. Then you know the probability is very high that you have a winning trade. If you put on a trade and it goes against you within a few minutes, it is also another kind of immediate verification, but it verifies that you are wrong. Then you look at your chart, and I look at my indicators, to see if it is still as good as when we entered the trade. If so, I stay in. If not, then I get out.

**TRADERS':** Based on your answers, there is an element of discretion in your trading approach, but you sell your trading system to other traders. They do not have the insight and experience with your system. Are they in a worse situation because they don't have your experience? Or are the systems you sell fully automatic? If so, how were you able to implement this discretionary element into the software?

**Cheung:** I am not able to program all my trading strategies into a mechanical system, but I still believe it's the best among the systems available. I believe no developer can program all his knowledge into the trading system; but I continue working to do so. I hope to give the best of what I can into the system so users can benefit from it. Users of my trading system can trade automatically without using any discretionary elements; but also, my students understand the logic and can apply their own knowledge.

**TRADERS':** Is money management an independent topic?

**Cheung:** Money management is an independent topic, but one must have a winning edge! If you have the best money management methodology but no winning edge, you will lose.

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

**Cheung:** For trading futures I risk 5%. For example, for an ES day trade, I trade conservatively with \$10,000 per contract, and if lose 10 points, i.e. \$500 per contract, then the system will stop. This accounts for 5% of the total equity in each trade. If I'm trading aggressively, then I may use \$5,000 per contract; then it is like 10% of the equity per trade.

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

**Cheung:** I have no profit target, and one should not use profit stops. Why stop a profit? This is what your broker likes you to do. You should have a stop loss, placed based on the number of points you are willing to risk. As long as the reason you entered the trade is still valid, why exit? No one can know exactly what the market will do next, so there is no target. In fact, if you see your indicator or method is going well, then you should add more contracts while you are profiting rather than taking the profit.

This is yet another reason why so many people lose. When you

drive, you stop when you see danger. You do not stop when the ride is going well. In trading, you stop when you have a loss, and you do not stop when you have a profit unless your indicators tell you there may be a turn ahead. No profit targets, because you cannot control the market like you control your own budget.

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

**Cheung:** Mechanically. This makes trading simple and powerful. For new traders, it removes the difficulty in pulling the trigger. For someone with experience like me, it's just a matter of simplifying the process so I can be away from the computer for more than a few seconds at a time!

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

**Cheung:** 60% winners/40% losers. The winning factor is important, and I always maintain approximately 2.5. To determine if a trader or system is good, to look at just the percentage of winning trades is misleading. Please look at the winning profit factor.

If a trader or system has 80% winning trades and 20% losing trades, it looks good. But with a closer look, if his profit factor is only 0.5, then one can judge it is a good system. This is like writing options: many writers make profits eleven months in one year, but in one month, they lose it all or maybe go upside down. This is a good example that even winning 90% of time still may create a net loss. It's the profit factor that counts more.

**TRADERS':** What was your worst drawdown?

**Cheung:** I had a loss of 20 points per ES contract in one day, which is \$1000 per contract. Now I have tightened the stops in my system to

prevent a repetition of that trade.

However, who knows? Maybe my worst drawdown is still to come. But with discipline, trade management, and use of stops, one can work to seriously diminish that kind of risk.

**TRADERS':** What do you find most frustrating with trading?

**Cheung:** Trading must be profitable and fun – otherwise why do it? There is no frustration in my trading now. If I lose, I write down what happened, research, and fix it. If the problem is in execution, then remember the experience so next time you execute better. Try to enjoy the trade; once you enjoy it, you will relax and vice versa – when you relax, you enjoy. Some frustrating moments during trading in the past have been when sudden news caused the market to move very quickly; but again, the use of stops helps minimize this frustration. Further, I mean sudden news, not economic figures or FOMC announcements. These things traders know about in advance and can predetermine if they want to be in the market, what stops to have in place, etc.

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

**Cheung:** If you use a system, you can avoid almost 90% or more of the emotional problem during trading. The only emotional problem that a system trader may face is when he is in great profit; he may want to take the profit and not follow the system 100%. System trading can remove some of this problem.

That is, it will if you have a proven winning system to auto-trade.

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

**Cheung:** If you have a winning edge, you trade at ease and you will not have fear, greed, and self esteem issues. All you'll have is a relaxed feeling. It's like when you're driving or swimming – any activity that you have studied and made a part of your reflexive movements – you just relax and do it.

**TRADERS':** What do think is the difference between you and so many other traders who were kicked out of the game?

**Cheung:** I found my winning edge. When you have a winning edge, you will be disciplined, you will have confidence, you will enjoy trading, and all things will come naturally. When you have a winning edge, you are able to trade at a level that you could not have anticipated and that most will never achieve.

**TRADERS':** When you're not trading how do you enjoy your free time?

**Cheung:** I do not have much free time at this stage; but trading is my passion. This is how and why I became a system developer. It is not something I set out to be, it is just something that happened – perhaps an unpredictable instance of meaningful coincidence, serendipity, or fate, or God's will in action. Whatever the case, I find great pleasure in teaching others to trade the eMini successfully using my strategies that I painfully learned over the years.

More information: <http://www.rc3200.de/presse.php> and <http://www.futurestruth.com/topten.htm>.