

Interview with World Cup Trading Championship® Trophy Winner Kevin Davey

Interviewer Chuck Frank

Kevin Davey gained national attention by finishing second in the prestigious World Cup Championship of Futures Trading® in 2005 with a net return of 148%. As of press time for this issue, he stood in first place in the 2006 competition with a 104% return through October 5. In 2003, Davey was featured as an up-and-coming business leader in Crain's Cleveland Business magazine's "40 Under 40" series for his work as Vice President of quality assurance with an aerospace firm.

Davey's contest trading is on display at WorldCupAdvisor.com and can be followed automatically with World Cup AutoTrade™ service. WCA Managing Director Chuck Frank had a chance to talk with Davey recently.

Chuck: You're a marathon runner but have been quoted as saying that you hate to run. Can you explain?

Kevin: I do hate to run, but it's true that I have finished five marathons. Though I don't like to run, I knew the physical benefits would be worth the effort. I needed a goal, to mentally challenge myself to continue a regular running program. What's a better goal than running a marathon? The unexpected benefit of meeting this physical challenge was that it inspired me to take on other challenges, succeeding at futures trading, for example. The confidence I gained by taking an extreme challenge spilled over to all areas of my life. I learn more about myself and the markets everyday.

Chuck: Who were your early mentors?

Kevin: I read a lot of books, by traders such as former World Cup champion Larry Williams. The Market Wizard series of books by Jack Schwager was also instrumental. That foundation got me on the right path.

Chuck: How did you first become aware of the World Cup Championship of Futures Trading?

Kevin: I heard how Williams turned \$10,000 into over \$1,000,000 in the World Cup. I checked around and found that the World Cup is the premier futures trading contest out there.

Chuck: You've had an interesting history in World Cup competition each of the last three years, moving into first or second place late in the year each time. In 2004 you led the event early on, then fell back, but rallied into second place at 77% by the end of September. But the end of the year you had given all the profits back. What happened, and what lessons were learned?

Kevin: In 2004, I was trading the same basic system as I do now,

which I call Trend Catcher, but I was taking a few discretionary trades also. In late October, I knew I had no chance of catching Kurt Sakaeda, the leader, but I thought I could achieve a 100% return, which was my goal. So, I made a discretionary trade in crude oil, and before I knew it, I had given back all my gains, and then some. The lesson I learned from that was "stick to the system." Even though I learned that lesson in '04, it is an almost daily struggle to not break that rule. The second lesson I learned is to avoid adding to losers, which is exactly what I did with crude oil. These were two very expensive lessons, to be sure.

Chuck: In 2005 your World Cup account was competitive all year, but you eventually finished well behind the winner, 278% vs. 148%. Was there a time during the year that you felt you were on the verge of breaking through to win?

Kevin: I'm sure during the year thoughts of winning the contest danced in my head, but it is hard to get too excited, since in a year-long contest a lot of things can go wrong – or right. As the leader

Kevin Davey's Highlights World Cup Championship of Futures Trading®

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started to pull away, I was determined not to make discretionary trades just to try to catch him. I tried to remain unemotional, and let my system do the work for me. Trading this* way, I have found, is a lot less stressful.

Chuck: You've led the '06 event on and off since January 31, and are currently in first place through early October with a 104% return. What's your mindset for the remainder of the year?

Kevin: One of the people right behind me is Kurt Sakaeda, who has won the contest twice before. There is no way I can rest with such an outstanding trader on my tail. So I will continue to trade just as I have been trading, with my proven, established system. I may finish in first, or I may not, but I want to remain consistent with how I have traded all year long.

Chuck: Tell us about the mechanics of your systems. What kind of indicators do you use?

Kevin: I believe fundamental information is built into the price, so I rely on technical indicators only. I try to keep my systems simple, to prevent curve fitting or over optimization. My best performing system has a breakout indicator and a relative strength indicator for entry, and average daily range calculation for exits.

Chuck: What is the most critical part of your strategy: entry, exit or money management?

Kevin: Like many people, I used to believe entry signals were most important, and there had to be a "Holy Grail" indicator that would produce great entries. Then, when I started serious computer studies, I found that most classical entry systems were no better than random entries. In fact, I found I could make money with random entries, if I had a good exit strategy and good money management. So, now when I develop a system, most of my time is spent on finding an appropriate exit strategy, and then running Monte Carlo simulations to optimize money management.

Chuck: You trade a variety of commodity sectors simultaneously in your World Cup Championship contest accounts. Is that by design?

Kevin: When I develop my systems, I look for ones that work across different sectors. That has two benefits. First, if a system works well in Japanese yen and cotton, for example, chances are good that the system idea is robust enough to use in other markets, and likely will perform well in the future. Second, trading multiple sectors at the same time helps smooth the equity curve.

Chuck: Is your trading strategy fixed or a work in progress?

Kevin: The trading strategy I use is fixed in the general sense, but every few years I will examine results and possibly change system parameters. The logic, however, stays the same. Even with a fixed system, I find myself constantly second-guessing the signals, and wanting to sometimes override them. In my systems, the winning percentage is typically about 40%, so upfront I know six out of every ten signals will be losers. The temptation to override, obviously, is

therefore very great. I find myself working on myself a lot, so that I follow the system without intervention. I have found some of van Tharp's work in this area to be of great help. Developing a system is one thing, but having the ongoing confidence to trade it religiously takes a whole different mindset.

Chuck: What other trading projects are you working on these days?

Kevin: I'm really excited about new projects I have recently finished, or am currently working on. Earlier this year, I finished development of what I call Mini Power Catcher, which trades the mini S&P and NASDAQ. So far in actual trading it has done very well. What I like the most about it is that I've set it up to trade automatically, without any intervention of overruling of signals by me. This keeps emotion out of my actual trading, which my experience tells me is critical with stock indices. I recently took the Trend Catcher system and applied it to forex, modified for the 24-hour market. Beyond that, I know my Trend Catcher systems works well with end-of-day signals, and I am going to see if it works with intraday bars of maybe 1 hour or 2 hours. I am very keyed up about this project too, which I have slated for release in early 2007.

Chuck: It sounds like you're getting a lot of mileage out of the Trend Catcher model while also adding new methods.

Kevin: Well, markets do change over time, and I don't know how long I'll be able to ride the success of Trend Catcher. Introducing new systems is imperative to diversify and lessen risk. This helps flatten out the account value peaks and valleys, which is a normal part of futures accounts.

Chuck: What percentage of the day do you actually spend trading or researching the markets?

Kevin: During the day, I try to stay away from trading and researching the markets, other than checking on my positions a few times. I have learned from past mistakes that if I sit glued in front of the computer monitor, eventually I'll start overruling my systems, and that is almost always not good. Most of my ongoing research is done at night or on weekends. Someone recently asked me how I spend my free time, and I realized most of my time is spent researching new trading systems.

Chuck: What is the appeal of World Cup competition for you?

Kevin: Without a doubt, the World Cup makes trading even more exciting, and competing has made me a better and more focused trader. I love the idea of competing with some of the best traders in the world. I do trade the contest account differently than other accounts, but only with regard to position sizing, and sometimes exits. I take less risk in my non-contest accounts, but as a result I end up giving up some profit in those accounts. Seeing my name among the Top 3 leaders, knowing I am doing better than many world-renowned traders, is a huge confidence booster, which has inspired me to develop even better systems.