

Turning the Tables on Charles Kirk



One of the most popular and helpful investment sites is The Kirk Report. Charles Kirk manages to balance the roles of trader, writer, teacher, and mentor. His site is a treasure trove for both investors and traders. He is constantly innovating and improving, most recently adding a weekly chart video.

A regular feature at The Kirk Report is an interview with someone in the investment world. I had the idea that someone should interview Charles and I am happy to report that he agreed. Some of the questions here are shamelessly stolen from his own excellent interview protocol. I have added others that relate more specifically to his approach.

As we turn the tables on Charles, I think readers will find his responses both interesting and educational. I certainly did.

Q: When and how did your interest in the market begin?

A: It began soon after I married my college love and we began our life together. Although both of us had college degrees and understood the importance of saving money, neither of us knew anything about how to do it. Moreover, after asking for advice from friends and seeking "professional" advice we soon realized that most people didn't seem to know very much either. After no clear answers were found, I decide to pick up a few books about investing one weekend and that sparked my interest. Little did I know at the time what soon became a part-time hobby transitioned into a true passion for the markets.

Q: Tell us more about your professional and educational background?

A: I graduated from Cornell College in 1993 with a double major in Philosophy and Political Science. My goal at the time was to take classes to prepare me to go to law school after taking a few years off to work and save money. During the period between college and law school, I was employed as a private investigator for a law firm. In 1996 I started law school at Hamline University and graduated in 1999.

Throughout the period before and during law school, I was actively trading. I am also ashamed to admit now that I would frequently skip lectures in law school to use the law library's high-speed internet access to trade!

A key turning point in my life occurred when my father passed away one month after my law school graduation. In one of our last conversations while he was in the hospital, he gave me advice that I'll never forget - "Do what you love and the money will follow."

So, with my wife's support, I decided to trade full time for two years to see if I could make it. Fortunately, I have never looked back!

Q: Why do you think these experiences have been especially beneficial to you as an investor?

A: Being a law student and before that my Philosophy major in college taught me how to think and to look at situations from various points of view. Also, working as a private investigator enabled me to develop research skills that are applicable in many ways toward the market. In other words, I learned to identify patterns not commonly seen and to understand human emotions and how they impact every decision.

Q: Can you tell us a little bit about how you learned how to become an investor?

A: I'm a self-taught trader and investor. In the first couple of years, I must have read over 500 books on investing and trading the markets and using what I learned from those to practice in my own account. At the time, there wasn't a whole lot of information online on how to trade and invest and what information was out there was really awful. Fortunately, this is in direct contrast to the present where most of the best and high-quality information can now be accessed online.

Q: Can you think about the one or two things that made the biggest difference in developing your skills?

A: In 1999 I managed to befriend a couple of people online that I met through message forums who served as wonderful mentors for me. They helped bridge in some gaps and shared their personal experiences that really fueled both my inspiration and progress. By taking the time they did to share and help me, in turn I have always felt obligated to do the same which is really why The Kirk Report now exists.

Strategy and General Market Advice

Q: Are there any passive strategies that you are especially fond of and/or have highly recommended to others?

A: There have been many passive strategies that I've talked about at my site and investors who've I've interviewed at length have also have shared their own methods. Frankly, whenever I find a new method or strategy I think can be helpful as a passive approach I try to pass it along as I think most people (over 90%) would be better off adopting passive strategies especially early on when they know very little and have no skills.

With that said, here's two important points about adopting a passive versus active strategy. First and foremost, it has been my view that unless you've proven the ability to beat the market's performance

over a lengthy period of time (at least two years) I think you have no choice but to follow a passive strategy. As many will tell you, I've often recommended that people put their money in a passive account while "they learn how to trade and invest" if they're so inclined using simulated portfolios to develop both knowledge and skills necessary to do well. Most people, as you know, never do that I think that's to their clear disadvantage.

Trading and investing without having any experience or skills only sets you up to fail and while many can and do eventually learn the hard way, the problem is that most people don't have enough money to outlast the long learning curve. Not to mention that the emotional scars they'll collect will likely negatively impact them for many years to come. I also think it is so important for people to explore many different types of strategies and approaches before they adopt one in order to find the strategy that best suits their personality, temperament and skills. In my experience, it is rare to find someone who has done that, which I think is also why the odds are stacked against the many.

Second, the problem with passive strategies is that most people abandon them at the worst of times. Unfortunately, I have witnessed this phenomenon many times. For example, back in February of 2009 I can't tell you how many people told me I was both stupid and negligent for recommending passive strategies and they were moving to cash or even buying leveraged short positions (often through ETFs) to make the pain go away. As you can imagine, that didn't turn out very well for those people. In fact, emotional-based investing and trading rarely pays.

Also, people who adopt passive strategies tend to be conservative and risk intolerant, so when the pressure is on they are often too-willing to abandon ship. This, of course, dramatically reduces the primary benefit of having a passive versus active strategy. In my opinion, it is very important for those who engage in passive strategies to understand how to incorporate simple easy to follow methods to reduce downside risk when market conditions are poor.

Q: That is really great advice. I have observed the same thing. To stay the course you need a method, and confidence in that method. What's the best piece of advice you've ever received about the investing & the market?

A: I suppose the best piece of advice came from a dear friend and mentor who showed me early on by sharing his very own tax records how he could be very profitable (make well over a million each year after taxes) even though he is only "correct" around 40% of the time. Once you understand that risk management is so important to your success and that keeping losing trades and investments "small when wrong," you will learn how to achieve great things in the markets.

Q: In the past couple of years, have you learned anything that truly surprised you?

A: Not as far as the market is concerned, but I have to tell you I'm surprised that Americas are willing to let Wall Street have so much power and influence without any consequences. Recently when I watched the riots and protests in France over increasing the retirement age I wondered how long it will be and what it will take to cause Americans collectively to stand up and fight against the power shift that is going to negatively impact many generations to come.

A Closer Look at the Kirk Approach

Q: Now I'd like to ask some questions about your specific trading approach and what others might learn from it. What does it take for one to be a good "consumer" of a technical analysis/trading approach?

A: In my view, two main things: 1) a focus concentration and understanding of a limited number of chart patterns, and 2) making sure not to "over-indicator" your analysis resulting in paralysis and poor analysis.

The best technical chartists in my experience are those with very basic setups, they utilize very few indicators (if any), but at the same time really know how to recognize patterns very easily AND more importantly, understand the pros and cons of the pattern and what to expect after it is produced. Most of the time these traders have concentrated on only a handful of patterns and really only look for those patterns instead of trying to learn everything and every pattern out there. They also know how to look for preliminary tells of a setup and especially identify clues that the setup is faulty. When the latter, they know and take immediate corrective action instead of waiting for the pattern to prove faulty.

Q: With such a wide range of possibilities, how can you tell what works?

A: Concentrated study, practice through personal experience, and accurate record keeping on past setups. Like everything else, technical patterns fall in and out of favor, but generally patterns that develop on stocks which are not closely watched by everyone tend to be more successful. That's why technical pattern analysis in isolation in the major market indexes tend to prove very challenging. In sum, the more a specific instrument is watched and traded, the more likely the patterns will not work as expected.

Q: Is this something you must learn to do yourself or can you be a follower?

A: Everyone learns in different ways but in my experience a combination approach is best. In other words, independent study coupled with some observation on how others analyze charts can work well. But, if I had to choose one over the other, I think independent study is far more effective. In fact, like most things in life, we learn the most when something hurts us the most and the personal experiences you gain from the mistakes you make are going to be your best teachers.

Q: A few weeks ago we discussed warnings by technical analysts concerning a developing head-and-shoulders pattern. They seemed to suggest that a 40-50% decline in the Nasdaq is possible, drawing an analogy to 2008. The visual power and similarity of the chart pattern is compelling to many. For those of us focused more on fundamentals, this comparison seems crazy.....You seem to navigate well in these waters, so what do you think?

A: My personal issue with such predictions based on technical patterns, especially in the major market indexes that everyone is watching is that those offering those predictions should if at all possible also provide odds of that scenario playing out. In other words, if Worden thinks that will occur, does he place

a 100% likelihood of that scenario playing out? I kind of doubt it. Only morons see any scenario like that as 100% certain. So, it would be helpful to know 1) what is the odds the predictor places on such a scenario to play out, and 2) more importantly, for the predictor to offer other "least like scenarios" and their odd percentages. This would go a long way to help us evaluate the predictor's overall analysis. In other words, you often learn more by understanding what the predictor thinks is less likely and why, than where their dominant bias resides. In addition, understanding the less likely scenarios are important to provide leading tells that the pattern identified is not playing out as expected.

Putting it All Together

Q: One question we all have relates to how you get it all done. You read very extensively, you write, you trade, and now you do the videos. What is your secret for pulling this all together? How do you read everything?

A: There's no secret really - I simply dedicate a LOT OF TIME to what I do and there are many sacrifices I make in return. When people are doing "fun" things, I'm usually working. There's simply no substitute for spending the time you need to get the job done.

The amount of hours I dedicate to trading, the website, & mentoring would simply astound others. Not long ago I had a fellow who I've been mentoring follow me around for an entire day just to see how I work, trade, and manage my routine and he couldn't believe how I stayed so disciplined, focused, and efficient. Not to mention the brutal work routine I have.

Finally, it goes without saying I wouldn't be willing to put in the time or make the sacrifices I make unless I really enjoyed what I do for a living and felt I was making a positive contribution to others. And, it also helps to have a loving and patient wife that understands and really believes in what I'm trying to do.

Q: Your site has many wonderful features, especially for members. You make it clear that the small membership fee goes back into the site or to charity. You also keep revising the features based upon feedback. Could you explain a bit about who you see as your main audience?

A: Thanks for saying that, but honestly it is always work in progress. I think it is important, just like as a trader or investor, to keep learning, evolving and improving your tactics and that's represented on the site.

What always drives me forward is what I think people will find most helpful and what I have learned over time which works best. So, as a good trader, I try to do what is working more often and less of what isn't working as well. Feedback surveys help me tremendously, but doing this as long as I have also has also enabled me to develop a good sense to what I'm doing right and wrong and what I need to improve and change. In fact, there are many weeks every year that I tell my wife that "I would cancel my membership if I was a member this week" which, of course, only serves to motivate me to work harder.

Q: Are people enjoying the videos? How do you keep up with the technology and new opportunities for site development?

Yes, most members really enjoy the weekend chart shows I do, but the demographic skews toward the young versus the old. I've come to learn that most young people (under 40) do not like to read things online and they prefer a video format. Over the past year I've had people tell me that they only watch the chart shows while others couldn't care less about them and are irritated that I'm doing more of them. As with most things, you can't make everyone happy!

It is true, we all learn in different ways and while making high-quality videos is a very big challenge for me, I'm doing what I can to improve and make them a more routine part of my membership offerings. Next year I will begin a video tutorial series that I think will help many learn new skills that would have been difficult through only the written word.

Q: Are there different groups within your membership?

According to those membership surveys as well as communication with other members, roughly 20% of them are professional investors. In other words they manage money professionally or advise people how to do it. Then the other 80% is split between very experienced and highly skilled traders and those people who are completely new and/or who have only been part-time hobbyists.

While I enjoy offering a little something for everyone, if I had a target audience it would be people who were just like me when I was starting out – i.e. poor, hungry, and highly motivated to find success in the markets. In other words, the "little guy" who desires nothing more than to achieve great things in the market AND who is willing and able to put the time and work into achieving success. That's also why I keep membership dues set well below industry average (\$100 a year) so that the little guys can afford it. After all, if you can't afford to invest \$2 a week in learning more about the markets, you probably shouldn't be involved in them in the first place!

Q: Do some focus on stock screens and others on trading?

I use a variety of screening methods, but more and more I've come to understand that no matter what the stock or ETF you decide to trade, a highly-skilled trader can make a profit no matter what. Remember, it isn't usually what you trade that is important, but how you trade it.

One of the things I try to work with people in my mentorship group is to build their skill set so that they would be successful trading anything they want to trade. When you can do that, you'll know you've arrived at the level that very few traders have.

Ironically, everyone talks about what to buy and sell in this business, but few understand or really appreciate that being successful in the markets has very little to do with that. Instead, it is the management of whatever you trade that is the primary key to success. A good trader, even in the worst stock, can find a way to trade it profitably!

Q: You do a tremendous amount of reading. If someone wanted to put three books on their Christmas list this year, which three would you choose and why?

A: I read much less now than I used to. As I've discovered among those who I mentor, it is easy to have too much information running around in your head. In fact, once I started seeing the outperformance of those in my mentorship group by those who read very little compared with those who do, I realized that I needed to structure my "research" time differently. My view now is that most traders have far too much information than just enough or of the right kind.

As for books, "One Good Trade by Mike Bellafiore" is by far my favorite book of 2010. He does a terrific job of showing what it takes to become a successful trader. The next book I liked this year was "Buy, Don't Hold" by Les Masonson as it offered a simple, practice guide to implement a active investment strategy that most could be successful with. Finally, I also enjoyed Jon Markman's new version of "Reminiscences of a Stock Operator" which is required reading by anyone even remotely involved with the markets. By the way, I have interviewed both Mike Bellafiore and Les Masonson recently at the site.

Q: In your career so far what were some key lessons that had the most positive influence on you?

A: It all really comes down to risk management - proper position sizing and using stops. If you know how to contain the downside risk when wrong, it enables you also to be free of fear while trading and allows you to be very aggressive when the conditions are prime.

Q: At this point of your career who do you look up to for inspiration and guidance?

A: The people in my mentorship group are those who both inspire and provide the most guidance. We work as a team and their involvement and my assistance has inspired me to trade at a higher level than I have ever before. They say you learn most by teaching others and this has proven true in my experience.

Q: A common element I find in all successful investors is that they are always working on expanding their knowledge and improving their strategies. What have you been working on lately in this regard?

A: As a trader who has spent well over a decade trading individual stocks, I've been moving toward an "ETF-only" focused strategy. It is not because I think there is less opportunity in stocks per se (because the opportunity there is greater if you know what you're doing) but that my lifestyle and time I can devote to trading full time has required a much more balanced approach. Also, given the size of my trading account now, I have to utilize ETFs just to spread the love around.

And Finally, a Bit More about Charles

Q: What are some of your personal passions beyond the market?

A: My wife, golf, hiking, traveling, movies, card games and helping others through volunteerism and charity. My plan is to retire in 11 years and focus much more on all of these passions if not develop a few new ones.

Q: If you had it to do over again would you choose a different career path?

A: No. Though I've had my fair share of ups and downs (who hasn't in this business?), I wouldn't change one thing. Sure, I can look back and say I should have been smarter about a few things I've done. But, as Warren Buffett once said, the rearview mirror is always clearer than the windshield. It has been a wonderful career so far and I'm truly grateful to be where I am now and have the opportunity to do something I truly love each and every day.

Q: Finally, if you had one piece of advice to share with all investors what would it be?

A: Three simple words - know your limitations!

While many people want to achieve success in the market, if you only have 10 minutes a week to invest (or even trade), you're not being realistic or honest with yourself. Also, if you have no skills or knowledge, latching on to other person's or expert's "hot" strategy is not the correct answer for you. Instead, think about putting your money in a passive portfolio and make a commitment to devote the next couple of years learning as much as you can both through reading and through concentrated practice. Once you do that and have proven your ability, it is time to go to work!

Q: Thanks again, Charles. Your responses are loaded with helpful advice for all of us.

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