



**Living The Dream: Trading Stocks with Charles Kirk of The Kirk Report
May 1, 2009**

David Penn: How did you first get involved in trading stocks?

Charles Kirk: After I graduated from college, got married and started working as a private investigator, I figured it was time to learn how to save and invest for our future and retirement. So, in my spare time I started learning about the market by reading everything I could get my hands on. Like most I began my journey by investing in mutual funds, then I moved onto individual stocks, and from that a strong interest in trading later developed. At first, it was only a casual hobby, but the more I learned and the more experience I had it soon became my life-time passion and career.

Penn: How would you describe the kind of stock trading you do? Short-term? Breakout?

Kirk: I do a lot of different types of trading (and investing) - from day trade, swing trade, momentum, trend trading and even some buy-and-hold indexing. In recent years, I've been spending more time on mechanical trading systems based on stock screens and technical analysis.

Penn: Are you trading stocks that same way now - in terms of style – that you did when you first started out?

Kirk: No, the way I trade now is vastly different than in the early days. The big difference now is that I know what I'm looking for and I'm fearless when I find it. And, if I don't find it, I wait.

Penn: What was the biggest challenge to you as a stock trader in your first few years in the market?

Kirk: There were so many challenges. As you know, the learning curve is a long one and in many ways I'm still on it. Although I have been actively trading for more than fifteen years, I'm still learning and there is so much more to know. I suppose the biggest challenge early on was simply to learn to recognize when I was wrong AND then take immediate steps to right the ship (i.e. sell losers at a small loss rather than allow a small mistake grow into a large one).

Penn: What was the first big trade you remember?

Kirk: Like many traders I know, I remember the beat downs far more than the wins. The largest loss I ever had was being short a tech stock - Brocade - and getting caught in a super short squeeze near the peak of the tech bubble. I had to close the position at a significant loss (at one of the worst price points you could possibly get) because I had no other choice since 100% of my capital was allocated to that trade and I got trapped. While I knew I was right about being short, I ultimately was early and therefore wrong and failed to adhere to my stops when I should have. While very costly at the time, the lesson was worth it because it forced me to understand the importance of risk management, position sizing and trading in a way to make sure that no one position could wipe you out.

Penn: Can you think about the one or two things that made the biggest difference in developing your skill as a stock trader?

Kirk: In my opinion, nothing replaces experience in the market. While I'm a fairly good student and enjoy learning from others through books, websites, blogs, etc., I learned most of what I know about the market through the mistakes I've made (some of them many times). Once I seriously decided to make this a full-time career, it helped me tremendously to keep a thorough record of my trades and lessons learned which I still update and refer to quite often.

Penn: Can you walk us through a trade or two to show us how you analyze the market for opportunity and then take advantage of that opportunity when it materializes?

Kirk: While I don't talk about trades I've made beyond what I share at my website, I can offer you a basic outline of how I approach most of the trades I make. The first step begins with my stocks screens, many of which I share through my screen machine at my website. All of these screens search for a variety of factors and criteria, but basically I screen for stocks that have a strong blend of fundamentals and technicals. From that point, I then set price targets at specific point that I think offer the best risk/reward for the trade (i.e. frequently near the bottom of trend channels, at key levels of support, moving averages, on breakouts, etc.) Once those price alerts are tagged, I then make the trade providing that my opinion of that particular stock has not changed in the mean time and it fits ok within my portfolio at the time (sometimes these alerts take weeks, if not months to hit and many never do). Although I do make other types of trades, these kinds of setups provide the bulk of my bread and butter.

Penn: What technical indicators do you use?

Kirk: For entry points, in most cases price and volume, trend channels, moving averages and stochastics will get the job done. I also use others (RSI, Money Flow, Balance Of Power, etc.) depending on the type of trade. As for exits, I find Teresa Lo's InVivo Universal Stops helpful to recognize key exit points for trailing stops.

Penn: Are there any that you used to use, but now find not very helpful any more?

Kirk: Honestly, there are too many to count as I've learned about just about every indicator out there (and still do). Most are simply overlaps of each other and won't provide much of an edge. The problem with indicators is that they'll tell you exactly what you want to know whether right or wrong.

Penn: How important is sector analysis in your trading?

Kirk: It plays a key role. Obviously, if you can focus your attention (especially in the short-term) on stocks in a leadership sector or one heavily being accumulated by institutions, you're chances of success are greater. In recent years, especially with the flood of new ETFs, sector tracking and trading has become even more important to me. Frankly, if I can't justify the headline associated risk with trading a specific stock, I'll often trade the ETF instead.

Penn: How important is fundamental analysis in your work? Which are the most important fundamentals you analyze? Earnings reports? Price-to-sales? Etc.

Kirk: Before I started trading stocks, I was mostly a fundamental "read the balance sheet" value type investor so I do like to know the companies I trade and invest in fairly well. That said, I rely on my stock screens to do the bulk of my "fundamental work." They are designed to bring ideas to my attention that have the strongest fundamentals and I rely on them for the most part to do that. As for criteria, I am very fond of using price-to-sales ratios, PEG, sales and earnings growth, low analyst expectations, relative strength, and money flow. In essence, the screens most valuable to me have four basic qualities: 1) they grow earnings per share over various time frames, 2) they have strong and consistent sales growth, 3) they sport an attractive valuation (often using price-to-sales), and 4) display relative strength.

Penn: How much of a role do larger economic issues play in your trading?

Kirk: It is helpful to understand big picture trends and market psychology, but the market's performance is based mostly on perception, emotion, and liquidity than reality. Otherwise economists would be the world's best traders which we all know is not true.

Penn: Following up on that question, how has the economic crisis over the past year changed the way you trade?

Kirk: Like most traders, I've taken steps to adapt to higher volatility by hedging positions and for holding for shorter time frames. Prior to this year as my portfolio grew in size I became far more cautious and conservative which significantly dragged on my performance. Fortunately, I'm now back to being far more aggressive than I have in some time and it is a nice change of pace. I love market mayhem and fear because it brings far more profit opportunities.

Penn: What is your opinion of the current efforts to rescue/bailout not only financial institutions but, apparently, automakers like General Motors, as well?

Kirk: As my favorite law professor was fond of saying - "the road to hell is paved with good intentions." I think the government is working overtime on that road without much contemplation and concern of the long-term consequences. As a country, we're far too focused on the short-term at the expense of everything long-term and that is never good. The right decisions, just like in trading, should work in multiple time frames but this is a lesson that government has a tough time figuring out especially in an election year. I continue to believe that if they just let the market do its own thing to discount the bad news we'd be far better off than rescue deals and socialistic mechanisms that will only continue to wreak even more havoc in ways we cannot even begin to imagine. Ultimately, I hope it all works and these efforts succeed, because if they don't the pain we've seen this year is only the beginning.

Penn: You are one of the fortunate few who have broken through into the world of trading for a living? Was this always a goal? If not, when did it become a goal? When in your evolution as a trader did you think it would actually be possible to reach this goal?

Kirk: After graduating from college with a degree in philosophy, my original goal was to become a lawyer. However, when my father passed away at age 57 from diabetes it had a significant impact on my life and caused me to rethink my chosen career. He passed away one month after I graduated from law school and one of the last things my father told me was to do what you love and the money will follow. This was just not advice, but actually the way my father lived his own life so I had a great example to follow. Knowing that also provided the level of confidence and courage to pursue trading full-time and I've never looked back. Because I was successful after the first few years and because my wife and I always lived well below our means, I always thought it would be a good career providing that I kept working hard, stayed focused, and kept learning. So far that turns out to be right, but as you know, we're all just one trade away from working at McDonalds!

Penn: How realistic of a goal is this for the average retail trader - is it as possible now as it was when you started trading?

Kirk: Sad to say, it is not realistic and, knowing what I know now, I probably would have pursued a different career. In my estimation, for every 1 trader there are probably 20 more than can't make it on a full-time basis primarily because their expectations are too high, they don't have enough skills, they trade in ways not suitable for their personality, they wipe out their capital too early in the learning curve, and they simply don't want to put in the work that trading requires. Frankly, most fail because they simply give up and because they sought to trade only because they thought it was the means to easy untold riches. The truth is that trading for a living is suitable for only a few and even those who choose to do so often leave the profession within ten years.

Penn: What top three suggestions or pieces of advice would you give to traders who dream of trading for a living?

Kirk:

1. Put yourself in the position of financial power by making sure your financial situation is strong (i.e. lots of savings (perhaps as much as two years worth of living expenses), you live below your means at all times (especially during the good times when your strategies are working), and whenever possible have alternative streams of steady income (always good advice no matter what you do for a living).

2. Keep your expectations reasonable. (Setting yourself up that you have to make 20% per month is a recipe for disaster. It can be done, but not consistently and you'll end up blowing up sooner or later. No matter what strategy you devise, the market is always changing and will always find a way to put you in the poor house especially when you convince yourself that you've finally discovered the holy grail to trading success.)

3. Learn various trading strategies before making a long-term commitment to one. (Spend at least a full-year of learning different types of trading so that you can recognize the best that will fit your personality and skill set. Then practice, practice, practice them on paper before putting real capital on the line. There are thousands of ways to trade - you need to discover the best for you and which will give you the best chance of long-term success. This discovery process will also help you figure out whether trading is the right career choice for you, or just another expensive hobby.)

Penn: Tell us why you decided to launch The Kirk Report?

Kirk: I enjoy writing and sharing my journey with others and people seem to think that my efforts are helpful. Over the past year, 97% of my members renew their memberships (which are only \$50 per year) so I must be doing something right.

Penn: Have your goals for The Kirk Report changed since you launched the website/blog? What are they?

Kirk: Yes. I started out thinking that I could do the work for people - i.e. provide stock tips, advice, etc. like so many other do, but simply do it better than everyone else. But, ultimately I discovered that even if the advice is sound, a lot of people don't listen and follow instructions very well. Unfortunately, many people hear what they want to hear and they ultimately do what they want to do, while at the same time expecting you to work miracles and holding you responsible for their failures. Instead, I ultimately figured out what I learned long ago myself - that the path to true long-term success in the markets rests within and you have to learn on your own how best to trade and invest. Accepting advice and stock tips will only delay your success.

So, over the last year or so, I've restructured the website so that the focus is on helping others build their own strategies based on perspectives and experiences from me and others I respect a great deal. I figure that if reader learns just one thing every month that helps them do better in the market, I've done my job.

Penn: The Kirk Report is very popular among many retail traders I know. What is the most gratifying aspect of publishing The Kirk Report?

Kirk: I really like it when I share something I've learned and then later have someone tell me that they found it helpful and/or made a difference in their trading and investing in some way. In addition, by offering perspectives and opinion in the manner I do, I've be able to become friends with some of the world's smartest and most skilled investors and traders. I've been able to learn so much from those relationships. I wouldn't be the man I am today without their help, support, and continued friendship.

Penn: What does the future hold for you as a trader and The Kirk Report as a destination for retail traders? What's next?

Kirk: My wife I recently just went through a major transition by moving from Minnesota to Southern Utah (my wife is now working as a college professor). God willing, our plan is for me to keep trading for the next 13 years or until I find something more challenging and rewarding (which is doubtful). I suspect that as I get older, I will also want to take a less active approach (use more passive mechanical strategies) to allow time for more golf and other life-long pursuits.

As for The Kirk Report, I believe it will continue to evolve as I do but ultimately remain focused on helping others help themselves to find more success in the markets.

Penn: Thank you very much for your time.

Kirk: Thank you. You're welcome

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