

INTERVIEW

Hey, It's That Trading Blog

Charles Kirk Of TheKirkReport.com

Minnesota-based Charles E. Kirk is an individual investor who has been investing and trading stocks for more than 12 years and who currently trades stocks for a living in addition to writing about the stock market in his blog, with more than 10,000 visitors reading his website on a daily basis; a notable number, considering he has only been blogging since September 2003. His education and work experiences are varied, including a bachelor's degree in philosophy and a law degree; he worked as a private investigator for a law firm as well as founding and operating the stock newsletter MoneyXperts. Kirk explains that his primary goals for the website and blog are to help the small investor and provide food for thought, not blind recommendations, adding that he lives and breathes the stock market every day and he does it because he loves it. Kirk has received high accolades from many financial publications, including Barron's, Forbes, Kiplinger's, BusinessWeek, and The Wall Street Journal, as well as this one.

The interview was conducted via email in early September 2007 by Technical Analysis of STOCKS & COMMODITIES Editor Jayanthi Gopalakrishnan.



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Charles, how did you get interested in trading?

After graduating from college, I decided it was time for me to learn everything I could about mutual funds. My wife had started a retirement account at TIAA-CREF and since neither of us knew anything about how to manage these kinds of investments, I decided to learn as much as I could about them. That grew into an avid hobby, especially after I became dissatisfied with the performance of the actively managed funds we owned. It also didn't take me long to realize that I could do better by using a smart mix of index funds, by picking my own stocks, mostly for long-term buy and holds, and then trading stocks for short-term gains as I learned more about stock-screening techniques and technical analysis.

What helped you make the decision to trade full-time?

I worked as a private investigator for

a few years after college, and it wasn't until I was in law school, with the time and flexibility of a student, that I could focus on trading full time.

Looking back, I think there were several factors that helped me choose this as my career. First, I started trading in one of the best bull markets in modern history, in the late 1990s, and the market was very forgiving of mistakes I made and the skills I lacked. In addition, low-cost online trading made trading as a career a viable option as tools and information became readily available in the late 1990s. I also fell in love with daily challenges and opportunities presented by the stock market versus practicing law.

Was that it?

By far the most important factor was advice I received from my father. Just shortly before he passed away (one month after I graduated from law school), he urged me to do what I loved

doing the most. He was a successful businessman, but he owed much of his success to the fact that he really liked his job. One of his favorite sayings was "Do what you love and the money will follow." That was very good advice.

Was it the thrill of taking risks that attracted you?

No, I'm definitely not a thrill-seeker. I like challenges and the opportunity to test myself against the best investors and traders in the world. Trading allows you to be completely responsible for your financial destiny. Win or lose, at the end of the day you are the only one responsible for both your successes and failures. I love that. Also, while trading well requires a great deal of time and effort, I also appreciate having the flexibility to take time away from the market to do other things (travel, golf). While I'm passionate about what I do, I don't live to trade. I trade to pay the bills.

Can you tell us about a memorable trade (good or bad)?

My website offers a history of trades I make and members have access to daily updates. While I go back from time to time to see if there are patterns in the mistakes I make so I can improve my performance, to tell you the truth I'm always focused on the next trade above all else. While I think it is a good idea for traders to keep a journal so they know how they're doing and be able to spot areas that need improvement, I think many traders live too much in the past. I've learned that past success will often make you think you're better than you really are and past failures will create a loss of confidence. Both work against you. As you know, we're only as good as our next trade and what happened yesterday, last week, and last year is irrelevant. That's also one of the great things about the market — there's always another opportunity to make a great trade.

o what's the best way for a trader to get over a bad trade?

The best way is simply to follow up a bad trade by making a good one. No matter who you are, you're bound to experience both hot and cold hands as your strategies fall in and out of favor. The key is to be flexible enough to modify your approach and adjust to the changing environment quickly. For example, if I'm not trading well, I'll reduce position sizing and lower the number of trades I make. Likewise, when I'm doing well and my strategies are working I'll do the opposite. You also have to learn to give yourself enough room for error and treat your failures as learning experiences. This is a game of mistakes, not perfection. Those who manage their mistakes well can always find a way to do well in the market.

What prompted you to start TheKirkReport.com?

For five years (1999–2003) I offered a subscription-based newsletter for wealthy investors. After a while, I was forced to make a decision. Either I could become a full-time newsletter guru or follow my original plan to trade for a

living. In my view, you can't do both. At least not well.

Running a stock-pick advisory is like running any other service-oriented business, because you have to spend a lot of time marketing and doing customer service to make it profitable. Frankly, I also thought that the newsletter business was more about hype and selling investors the idea that they could get rich by just following your advice. The problem with that is that it is against everything I truly believe in. To do well in the market, I think you have to make your own decisions, develop your own strategies, and find your own niche. If you don't do that, you'll never achieve the level of success you desire. After all, most of the fun of being a trader and investor is seeing your own hard work and analysis pay off.

While my subscribers were not happy that I deep-sixed the newsletter, many still asked me to offer my insights in some other manner, even if only occasionally. After seeing my first blog back in summer 2003, I thought that would be a perfect format to share my thoughts and research to help former subscribers. Through word of mouth and zero marketing, the website's readership grew well beyond anything I could have imagined.

It's certainly a popular blog. Why do you think you have so many readers?

I think the website has helped a lot of people do better in the market. Because my focus is on getting investors to think for themselves and to develop their own strategies versus just getting stock picks or advice, I think it has made a positive impact in people's lives. Beyond that, the blog is unusual in some other respects — for example, I don't allow advertising on the website — and I often share different points of view on the same subject. My goal is for readers to constantly question and understand all sides of every trade and that tends to appeal particularly to sophisticated investors who know the importance of viewing the market from different points of view.

You do certainly have a lot of information on your blog. I could spend a lot of

time there. What are some of the most popular types of topics your readers like?

My readers are focused on improving their bottom-line results. Anything I discuss seems to be popular, whether it's stock screens I've found helpful, tools I use, or my thoughts on risk management. My goal is to open new doors to readers so they can see the market from different perspectives.

You screen a lot of stocks. From reading your blog, I get the impression that you use fundamental and technical analysis to identify these stocks. How do you combine both?

I want three things in my favor on every trade: excellent fundamentals, excellent technicals, and a market/sector trending in the direction of the trade. When I don't have strong levels in all three, I usually don't pull the trigger unless I'm trading only for speculation.

What kind of fundamentals do you look at?

Every screen I've developed looks for different things and various levels of concentration, but most are focused on earnings, sales, profit-margins, leverage, return on equity (ROE), return on assets (ROA), and cash flow.

What kind of technical indicators do you apply?

Money flow and relative strength are key. Ideally, I want to find stocks just starting to be accumulated before large uptrending moves.

How often do you trade for speculation?

Not as frequently as I would like. Other priorities including writing my first book, making technology upgrades to *The Kirk Report* this year, and what I think have been relatively testy markets have kept my speculative trading low.

A lot of the stocks you pick are not the most liquid stocks or held by institutions. Why do you trade stocks like that?

In my experience, the only real edge

I can gain is well off the beaten path. Every hugely successful stock I've owned over the past decade has been from areas of the market that are simply not looked at by many investors and are typically not covered by many analysts. Too many sharks play with the popular names, and if I do my homework right, I can find mispricing and better low-risk/high-reward opportunities where the market is not looking.

What factors do you look for when you're screening stocks?

At the website I currently share 10 of my favorite stock screens and each one is looking for different things (strong earnings & sales, relative strength, peer outperformance, positive money flow, and so on). However, it is that blend of screens that usually point me to the best opportunities. For example, I place a lot of importance on stocks that show up in more than one of my favorite screens and those that show up time and time again on the very same sets of stock screens. This kind of research is labor-intensive, but worth it if you can spot patterns and focus your energy on the best the market offers.

Do you follow a specific algorithmic trading system or are you a discretionary trader?

I'm 100% discretionary and I trade far less than most.

How many trades do you make, on average, per week?

For all of 2006, I completed 77 trades. Prior years were far more active.

One indicator you mention in your blog is the timing indicator. What type of indicator is that?

It's not so much an indicator as it is a one-stop representation of my analysis of the market's potential. I created it so that readers would know where I stand on the market and establish a timing track record for my views. Because there's so much material at the website, sometimes my own personal opinions get lost in the shuffle.

Most of the time my timing indicator is in a neutral stance (which is reflective

of my opportunistic attitude), but there are infrequent times I will move it to the bullish or bearish position. It is at those times I'm trying to make a significant market call that I think others should consider. On an average year, the market will provide one or two very good buying opportunities (and sell points) and the indicator was designed so that readers would know when I think those periods are under way.

Do you predominantly trade equities or do you trade other instruments?

I only trade equities. I like to keep it simple.

Are there certain technical setups you favor?

If you examine my track record in detail, I've made a lot of money harvesting breakouts and stocks with specific technical formations like cup-with-handle patterns. But generally, every stock I trade comes up in one of my fundamentally focused screens first. I use my screens to limit my focus to less than 200 stocks and then use technical setups to generate a trade or long-term investment opportunity.

How do you protect your losses?

Having losses are part of doing business as a trader. No one is going to be right all of the time. The key is to make sure to own up to your mistakes and not allow them to do too much damage. For short-term trades, I try to buy stocks at points where the stock will quickly tell me I'm correct in being long or short. It is at these pivot points I concentrate a lot of time and energy in exploiting. If the market shows I'm wrong, you'll see little hesitation for me to take the loss and move on.

Is there a particular strategy you apply to exploit these pivot points?

Though there are some similarities, every stock seems to have its own tell. Some stocks, for example, will act in a consistent way within a regression channel for example. My goal is to set buy points around areas that have consistently been effective buy points in the past and offer a high degree of success. As a goal, I want to enter trades that I

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think offer the least amount of downside risk and the most upside potential. Of course, that is easier said than done, but that's my primary objective at all times.

What's a typical workday for Charles Kirk like?

My daily routine does vary, but I like to get up early enough to watch premarket trading, identify a handful of stocks I think may offer an opportunity to trade, and then eat breakfast with my wife. After that, I then compose the first post of the day for the website where I offer my thoughts about the market and things to watch for in the day ahead. After the market opens, I monitor my real-time scans and pay attention to price alerts I've set (usually at the pivot points I've previously identified). I do this for at least the first couple of hours of trading and I try to share anything particularly important with the readers.

For the rest of the trading day, I usually spend my time monitoring my watchlist, running and updating new screens, doing more intensive research (especially if I'm not trading), and my online reading. I also try to share with readers anything important that I've discovered in my work. After the closing bell, I go exercise, answer email, and do the final post of the day after I've had time to look at after-hours trading and stocks that have reported news. Frankly, my day is not all that exciting, but I enjoy it. The market always offers something new and interesting.

Thank you, Charles.

SUGGESTED READING

Penn, David [2005]. "TheKirkReport.com," Websites For Traders, *Technical Analysis of STOCKS & COMMODITIES*, Volume 23: March.

- www.thekirkreport.com.