

*The Rise Of Automation*

# Travel The Trading World With Tomas Nesnidal

*Travel, eat, meditate, make money, and enjoy life. That's how Tomas Nesnidal describes his life. And it's a life many traders would covet. Nesnidal has been a full-time trader for over 11 years, specializing in automated algorithmic trading strategies. Although he has developed strategies for different trading styles, his affinity is for breakout trading systems and market internals. His personal blog at [www.SystemsOnTheRoad.com](http://www.SystemsOnTheRoad.com) contains some practical posts with tips, videos, and a free breakout strategy.*

*STOCKS & COMMODITIES Editor Jayanthi Gopalakrishnan communicated with Tomas Nesnidal via email in July 2018 to find out more about his breakout trading strategies.*



**Tomas, could you tell us about what got you interested in trading?**

I am a European-based trader who trades the US markets. I was born in the Czech Republic but have been living and trading from the very south of Spain for about seven years now. My original professional background is in the movie industry (I graduated from a film school), but I found that my true passion is for the markets. I decided to trade to fulfill my two big dreams—to live on a sunny beach and to travel a lot. Thanks to trading, I achieved both: I am living in a beautiful location, right on the beach, and I have traveled to 65 countries. In fact, your wonderful magazine published my article “Around The World In Trading Days” in your June 2016 issue, which tells more about that. A lot of people who read that article didn't believe it was true—that I really travel so much while fully automated trading makes money for me.

But it is true; I have been living exactly like that for many years. It is absolutely doable and absolutely achievable.

Since the time you published that 2016 article about how I trade while traveling around the world, I have had one significant trading-related news event in my trading life: Last year, in November, I launched my own private hedge fund, which, so far—knock on wood—has been performing well.

**That's good to hear. I know you've traded different strategies, but you're known for breakout trading strategies. What is it about breakout trading strategies that appeals to you?**

Yes, breakout trading strategies are my area of specialization. I have been trading these strategies for about eight years now, full-time. And what I like about them is they are very universal. They work on any market, timeframe, both in daytrading and swing trading. I have developed a universal breakout strategies model, which is very robust. With this model, it is pretty simple to build powerful, highly robust breakout trading strategies almost on any market in the world. In our hedge fund, we have 913 breakout trading strategies we built with this model, and after two years of tracking them, 93% of the strategies that passed the hardest robustness level keep making money. That's what I truly love about breakout trading strategies—they simply work and I think of them as a timeless trading approach.

**You mentor several traders. One of the aspects you often discuss is there's more to trading than the desire to make money. There's a deeper purpose—one of self-discovery. Could you talk more about that?**

Trading is a very demanding business. To succeed in the long term, you need



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to learn not only about a lot of technical and conceptual aspects but also the psychological aspects of trading. At the beginning, most traders think they are already Zen masters—until their first drawdown. When that first drawdown strikes, they are freaked out. They become very emotional, start making mistakes, and stop being disciplined. Fear and greed simply take over the rational mind—and their trading dreams are buried fast.

So, to be a successful trader, you need to “conquer” these two trading emotions—fear and greed. But that can only be achieved through honest and deep self-discovery. Thanks to trading and thanks to the constant need to challenge the emotions of fear and greed, I

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learned a lot about myself: I learned to meditate regularly; I became calmer, more centered, more self-confident but also happier and able to enjoy life much more. All thanks to this amazing trading journey. Once you are “all in,” it becomes much more than just a quest for the idea of making money. It literally pushes your personality to constantly grow.

**What do you trade—equities, indexes, futures? Do you have any favorites?**

I trade only the futures markets. I found the futures contracts to be the easiest to achieve truly low correlations between different trading strategies. In general, stocks are highly correlated, and so are indexes, but if you trade futures and focus on very different markets—like, for example, soybeans versus the emini S&P 500—you can achieve some truly low correlations and therefore amazing and very powerful diversification, which then leads to a smoother equity curve and more stable distribution of profits.

**That’s all true. Why do you think retail traders are hesitant to trade futures?**

I think the first reason is that the futures markets are not as hyped as forex and aren’t as heavily traded as stocks. So many traders think that futures are something inferior or riskier. But in reality, I personally found the futures markets to be the most interesting markets with the highest potential, and also the easiest markets to achieve the diversification I am looking for.

The second reason could be that there is a learning curve in the futures markets. That means traders will have to understand things like margins, contract

margins, contract delivery months, rolling, different contract specs, and so on. But once traders understand these different nuances, they may find that the benefits of futures markets compensate for that extra required learning.

**From the perspective of a beginner trader who wants to develop a trading system, what’s a good starting point? In other words, what initiates the development of a trading system?**

There is no one definite way, but from my experience, the best starting point is a combination of experimentation and creativity. A beginner trader must not be afraid of “not knowing it all.” They need to think of the idea of creating a trading system as an advantage. They should be open—deliberately and willingly—to the learning process through testing and trying crazy ideas and combinations of different approaches, trading conditions, risk-management techniques, trading indicators, and so on.

I believe that creativity and experience are the best teachers for creating trading systems, as well as many other things. It’s okay to start with the very little you know, but you should experiment with it as much as possible. Try many different variations and combinations of what you already know, even if it’s not much; try it in a creative way, assemble your first strategy candidates out of what you already know, and then backtest using historical data to see what the results show.

**Once you’ve mastered that starting point, what would be the next steps in the process?**



Creativity and experience give you a great base for learning how to start building many trading strategy candidates out of nothing. That is a great start, and with a bit of creativity, you will quickly learn how to put together different trading concepts and ideas that show some promise in backtests. But really, this is the very beginning. About 99% of those ideas will just be overoptimized junk and won’t lead you to a viable trading strategy. So the next step is to learn as much as you can about robustness-testing procedures and figure out how to distinguish bad strategy candidates from the potentially good ones.

**And once you’ve graduated from beginner to intermediate, what should you focus on?**

Once you’ve progressed to intermediate, you should focus on your portfolio. That’s when you truly start making a living from trading consistently. Once you have a good portfolio consisting of low-correlated, robust trading strategies, you can start seeing some really nice, smooth equity lines—even in your live trading. The distribution of your profits will become much more stable with well-designed portfolios, and you can start making a living from that. In fact, you don’t even need much at the very beginning—even a good portfolio of three to five great trading strategies can be enough to start making a living from trading full-time.

**Do you have different trading systems for different market scenarios or different tradables?**

I don’t have different trading systems specifically, but in our hedge fund, we change our risk based on different trading scenarios. For example, if the current trading scenario is highly favorable, we can risk as much as 1.5–2% per trade. If the market scenario is not persuasive, we allocate only 0.5% on such a trade, or even less. If the market scenario seems to be highly unfavorable, we can skip the trade completely. We designed a special algorithm for this dynamic risk approach, so it is all fully automated.

**In spite of having a system, system**



*traders still could fail. What are the main reasons, in your opinion, for these failures?*

I have spent years trying to figure out the main reasons why both trading systems and the traders who trade those systems fail. When it comes to *trading systems*, the biggest reason for the failure, from my observation and experience, is the lack of a truly comprehensive, tough robustness-testing procedure. Today, the commonly available and commonly followed robustness testing and validation methods either don't work anymore or are far from being sufficient.

It is becoming more and more difficult to beat the markets. The competition is growing fast, as systematic trading is more accessible than ever, fast computers are getting cheaper every day, big banks now own supercomputers on the level of those at NASA, and artificial intelligence is showing more and more incredible capabilities.

So every day, there is a tough war of trading algorithms going on in the markets, and only the strongest, most robust and fittest algorithms can survive. So the demand for tougher robustness-testing procedures is higher than ever. It's not enough to just have a "winning" strategy right now. You need to have a "super-robust and highly adaptive winning" strategy.

Because 99% of trading strategies fail, you need to really be able to recognize the successful 1%, and that can only be achieved through exceptional robustness-testing and validation procedures (that's also where I spend 80% of my time as a trader—making my robustness-testing procedures better every day).

When it comes to the reason why *traders* fail, I would say that mostly has to do with undercapitalization, lack of experience, and underestimation of the psychological impact of drawdowns. Most beginning traders think they can handle big drawdowns but in reality, they become highly emotional even with small losses. Trading, especially in the beginning stages, requires quite a lot of humility and self-honesty.

**Getting back to breakout trading strategies: On your site,**

***SystemsOnTheRoad.com, you share the results of a survey you conducted among your students that revealed the biggest challenge in trading breakout strategies is false breakouts. What are some ways for traders to overcome these challenges?***

Yes, this was a very extensive survey among hundreds of traders from all around the world. We did this together with [www.BetterTraderAcademy.com](http://www.BetterTraderAcademy.com) and [www.BetterSystemTrader.com](http://www.BetterSystemTrader.com). And we were blown away when we saw that coming across false breakouts is the number-one problem for most breakout traders!

Now, the first thing to understand about false breakouts is that you can't just filter them out. This is what a lot of traders try to do, but it only leads to more overoptimization and overfitting.

The solution to reducing false breakouts is not about blindly trying to filter them out; it is all about the right timing and a deep understanding of it. And when you truly deconstruct timing, you realize there are many levels to it: there is what I call general timing, system-level timing, volatility timing, and market timing. It is important to understand these four types of timing, since each has a pretty strong impact on the breakout trading results. And then you should start thinking about where you can improve, just by a little bit, each of these four timing levels. Then you may be able to achieve some significant reduction of false breakouts.

Reducing false breakouts is a pretty comprehensive topic, so I have written a small, completely free ebook about that titled *How To Fix False Breakouts Fast—Quick Guide*, which can be downloaded from [SmashingFalseBreakouts.com](http://SmashingFalseBreakouts.com).



**It isn't about finding the 'perfect' strategy; it's about finding the most robust ones.**

***So should the effort be on having a robust trading system at all times?***

If you truly want to become a long-term successful trader, put most of your time into improving your robustness-testing procedures first. It isn't about finding the "perfect strategy"; it is about finding the "perfect evaluation and validation process that can identify dangerous strategies (usually 99% of them) so only the truly viable ones are left." And once you have this, you can focus on portfolio building, which is the easiest way to smooth out your equity curve and maximize the stability of the distribution of your profits. If automated breakout trading is what appeals to you, you can listen to my podcast episodes at <https://www.BetterTraderAcademy.com>, where I share a lot of my experiences and know-how from my breakout trading journey, as well in my personal blog posts at [www.SystemsOnTheRoad.com](http://www.SystemsOnTheRoad.com). It is my hope that visitors will find a few trading gems at my site.

***Thank you for sharing your thoughts with us, Tomas.***

#### **FURTHER READING**

Nesnidal, Tomas. [2016]. "Around The World In Trading Days," *Technical Analysis of STOCKS & COMMODITIES*, Volume 34: June.

- [www.SystemsOnTheRoad.com](http://www.SystemsOnTheRoad.com)
- [www.BetterTraderAcademy.com](http://www.BetterTraderAcademy.com)
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