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Interview with J. Welles Wilder

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J. WELLES WILDER

Welles Wilder is best known for his technical indicators – now considered to be core indicators in technical analysis software. These include Average True Range, the Relative Strength Index, Directional Movement and the Parabolic Stop and Reverse.

He has written many articles on trading, appeared on numerous radio and television programs, and conducted technical trading seminars in Asia, Australia, Canada, USA, and Europe. He has also developed the Delta market timing software, One Day at a Time. Around the world, there are probably more traders using Mr. Wilder's systems and methods than any other discipline.

Part I : Who is J. Welles Wilder ?

TJ: Please provide a background of yourself? What were you doing before you become a trader? When and how did you get into trading?

It just so happens that I have had several careers. Between high school and collage, I was an automobile mechanic and joined the Navy and became an airplane mechanic. After the Navy, I went to North Carolina State Collage (On the G.I. bill) and graduated with a degree in Mechanical Engineering. After seven years of engineering (and building a large Mobile Home Park on the weekends) I left engineering and got into Real Estate and Land development.

Two other people and I built 1,035 apartments in five cities in North Carolina and Virginia. I bought an airplane, learned how to fly it, and made the rounds of the five projects about every day. When the apartments were almost finished my two partners wanted to buy my third of the projects.

In the mean time, I had become interested in trading commodities because they are even more highly leveraged then like Real Estate. My partners and I agreed on a fair price and suddenly, at 38 years old, I had all the money I needed and nothing to do. So, I started to study the art of Commodity Trading.

TJ: What was it like when you first started?

I made a lot of money in Silver because I had reason to believe that Silver was going to increase in price. I can remember buying a contract of Silver at \$1.38 an ounce. I think that was as low as it got.

TJ: How have you evolved as a trader?

I began to trade other commodities and I soon learned that one can also lose money trading commodities. So I stopped trading and began to get into technical analysis. This was in the early to mid seventies. The only book I could find in the library about trading was written by a man named Gold. Then I learned about a man in Wysetta, Minnesota who had collected about everything in print on Technical Trading. For a small price, he would send you several of his writings at a time and allowed one to copy them before sending them back.

TJ: How long did it take before you considered yourself successful? And how would you define success?

My first real success in the Commodities Industry was in 1978 when I wrote and self published my first book, *NEW CONCEPTS IN TECHNICAL TRADING SYSTEMS*. Before I wrote that book, there were just two basic totally

automatic trading systems to my knowledge. One was the *MOVING AVERAGE* and the other was Richard Donchian's *WEEKLY RULE*.

In the New Concepts book, I introduced four new automatic trading systems. They were, The Parabolic Time/Price System, The Volatility System (which introduces Average True Range) The Directional Movement System, and the Swing Index System. The book also includes the first momentum oscillator to put all commodities and Stocks on one scale. That was called The Relative Strength Index or better known as the RSI. Over the years, we have sold more than 25,000 copies worldwide. At \$65.00 it was also one of the highest priced books on trading.

Upon completing the book I ran a full page ad and an article on the RSI in the June 1978 issue of what was then called *Commodities Magazine*. This was just at the time that small computers were becoming available and it seemed every trader in the world was looking for something to program. We sold thousands of copies of the New Concepts book to these people all over the world.

The result of this is that I suddenly became well known in about every country that has commodity and Stock traders. In the meanwhile, I developed an (automatic) visual trading system called The Reverse Point Wave system. It worked equally well on stocks and commodities. To make a long story short, I put on seminars and taught this system to traders in about 10 different countries.

Probably, what contributed the most to my success over the years was my ability to write advertising copy. That is quite unusual for a Mechanical Engineer! I suppose that it was about this time that I considered myself successful in my third career.

So how would I define success? I would say; by setting oneself a difficult goal and then achieving it.

TJ: What is the largest contributor to your success?

Determination, and being one of the best ad copywriters in the industry.

TJ: What do you trade?

I trade the 35 major US commodities, primarily, and next; Gold and Silver stocks and options.

TJ: What was your first trade like?

My first trade was in Silver and it was very profitable.

TJ: What was your best trade?

The one I remember the most was in the early seventies when I bought \$10,000

worth of Silver options and sold them for \$40,000 six months later.

TJ: What was your worst trade?

Well, I hate to tell you this one. It proves that I'm not very smart after all. In the

Spring of 1999, I thought that Y2K was going to be a problem. That was when my wife and I decided to live permanently at our home in New Zealand. I thought that if there were problems, then Gold would rise in price. So I bought 1600 Gold options. About a week before we left for New Zealand, Gold began to rise rapidly.

When I got to New Zealand I realized that I had forgotten to take a new data disk. My office in North Carolina e-mailed me the value of my options every day. When they reached two million dollars, I decided to take profits. So I e-mailed my office manager to BUY 200 Gold options every day. What I meant to say was SELL 200 Gold options every day.

When I found out my mistake a week later, I almost fainted. I e-mailed him to SELL every option we had left the next day. To end this story quickly, (I don't much want to think about it!) I ended up just about breaking even on the deal. That was certainly my worst trade; which could have been my best trade, except for one word. . . BUY!

TJ: What methodology do you use?

I use the best trading system I ever developed. It's called the Delta Plus system. It makes over 100% a year, every year, trading eight commodities. It is available only to members of The Delta Society International. It uses, among other things the Volatility System and the Parabolic Time/Price System

TJ: Is that what you do now – you have a newsletter and you manage money?

What I do now is head up an organization I initiated in 1984 called The Delta Society International. I write the monthly trading letter that members receive. I do not manage money (except for myself!) We don't have space here to talk about The Delta Society. If interested, please check out our web site. www.deltasociety.com

Part II : New Concepts in Technical Trading Systems

TJ: How did the book come about? Where did you get the inspiration and ideas for the book?

In the mid seventies, I had time to come up with a lot of new trading concepts. So, I decided to do something that I had never done . . . write a book about the best ones.

TJ: What is the central theme of the book?

Frankly, I don't think there is one because each system has its own theme.

TJ: What makes it stand apart from other books?

I think it was the new concepts that were different from anything else in print that made it totally different from other books.

TJ: How could one get the most out of the book?

Read it slowly and carefully until you understand the concept for each system. And understand what serious system developers have learned . . . that the best system in the book (often overlooked) is the Volatility System concept.

TJ: Can we talk a little bit about the RSI ? What led you to develop the indicator?

Back then, people were using oscillators to show the strength and weakness of a particular stock or commodity and each oscillator had a different scale. The RSI put all commodities and stocks on the same scale from 1 to 100.

TJ: How?

Frankly, I can't remember exactly how I did it. But, I could figure it out again, given enough time.

TJ: In basic terms, what sort of signal(s) does the RSI give?

In a nutshell, it measures the current strength and weakness of a particular market often in advance of the move. I don't think we have the space here to cover it completely, but on page 68 it is laid out in detail, including one of the most important concepts: "The Failure Swing".

TJ: Are the principles in the book still relevant in today's market? What would you modify and add if you are to write an updated edition today?

The answer to the first question is definitely. For the second question, I can't think of anything I would add or take away in the book. I admit that is quite unusual!

Part III : On Markets

TJ: How do you view the market?

The markets must win or else there will be no markets. There must be more money lost than won. The big winners are the Commercial Hedgers with huge money to back up their positions. These are the Fundamental Traders. The second group of traders is the Large Speculators which are mostly the big commodity funds. They are technical traders. The last group is the Small Trader. The Small

Traders certainly outnumber the other two by I would guess a thousand to one. Since only 5% of Small Traders (over time) end up making a profit you can see where the money comes from to make a market. Fortunately, so far, I am still in the 5%!

TJ: How do you approach the market?

I have two accounts. In one account, I follow the Delta Plus System on the 8 commodities exactly, no matter what I think personally. In the second account I use the Delta Turning points and my own judgment to trade all of the market, but not necessarily at the same time!

I also have another system, called the DDS (Delta Directors System) that trades any and all commodities with only one parameter. (A parameter is a certain value or number that changes for every commodity.) This system has averaged over \$50,000 a year in actual trading for the last 10 years. Nine out of the ten years were profitable. The one losing year was a loss of \$5,000. The first quarter of the following year made over \$20,000.

TJ: What has changed in the markets now from when you first started?

Since the markets must win, most trading systems can work fairly well for a year or two and they break down to losing as more and more sophisticated market action adapts to defeat the system. So what has changed is that the markets adapt to most every kind of trading system, and it becomes harder and harder to come up with a system that can beat the markets. But, a few of them do beat the markets year after year. The more commodities your system trades well and the fewer parameters it has, (no more than two at the most) the better and longer lasting is your system.

TJ: What has remained the same in the markets now compared to when you first started?

Not much except for the three classes of traders.

Part IV : On Trading

TJ: Is trading difficult?

Well, it's certainly not simple. Successfully trading commodities is the most difficult thing I can think of.

TJ: What are the difficulties?

Finding a good trading system and following it exactly.

TJ: What is the biggest cause of failure and how should people overcome it?

Letting your emotions override your plan or system.

TJ: Are traders born or can they be taught?

Both. Some people are born with an innate discipline. Most have to learn it the hard way.

TJ: What would make a good trade?

The trade should be in the major trend direction. It should not have wild gyrations. If possible there should be a nearby support area to provide a reasonable stop. It should be rated high on the COT. (Commitment of Traders.)

TJ: What would make a lousy trade?

It would be a trade against the major and minor trends with wild gyrations.

TJ: You've been trading for some time. I think one of the most difficult things traders are faced with is dealing with emotion. How do you avoid falling into the type of trap?

That's a good question. It takes experience, discipline, quickly recognizing the problem and the determination to overcome it. Otherwise get out of trading.

TJ: What else should people keep in mind when they are managing risk?

Risk is something one should consider before entering the trade. He can use a chart to determine the support and resistance. If those allow too much risk, either forget the trade or come up with a dollar (amount of money) risk. Most importantly, do not increase the risk if the trade is going against you.

TJ: Given a chance to start all over again, what would you like to do differently?

Well, if I knew then what I know now, I would probably know Bill Gates and Warren Buffet as personal friends! Seriously though, as I look back on my life and think of how exciting and rewarding it has been, including the hard times and the good times, I wouldn't change a thing!

TJ: Let's talk about trading education. How long do you think it would take someone to master the art of trading?

Of course that depends to a great extent on the person and his mastering of the attributes we have been talking about. Most traders never master the "art of trading," because to me that implies being able to trade profitably without a system to rely on. So, I don't think there is I have a definitive answer to that.

Part V : Trading System

TJ: Other than the book, you have also developed a trading systems? Please tell us a little about it. Why did you develop it? What is the basic principle?

Over the years, I have developed numerous trading systems. I ended up with two trading systems that I will probably trade for the rest of my life. One is the Delta Plus System which trades 17 commodities profitable with low draw downs. I prefer to trade Delta Plus on what I call "the big 8" instead of 17. It has two parameters. It has twelve years of very profitable results and two years of actual trading results.

The other system is the DDS system. It is based on a certain configuration that very often causes a major break out either up or down. We take the trade in the direction of the breakout and follow it with a unique stop. Although this system is definitive, it has never been programmed. It would be a bear for anyone to program. Our experience with the program in 10 years of actual trading, as I mentioned above, was over \$50,000 per year. Draw down is generally very low.

TJ: What is your view on trading systems? Do they work? What makes them work?

I think the best thing a commodity trader can rely on is a good trading system. In the February issue of Futures magazine, is an article about the "Top Ten Trading Systems through Time". I know George Pruitt (who conducted the testing) personally. He is totally trustworthy. I have not revealed my two systems to anyone to program. My personal programmer is good friend who works exclusively for me.

I will list several of these systems so you can look them up on Google. They are all for sale. Here we go: Aberration, Basic II, Dollar Trader, R-Breaker, Grand Cayman, Trend Channel, and Golden SX.

I am not familiar with any of these systems or how many commodities they trade. I don't want this to sound like a commercial, but add to the list my Delta Plus System, which is available from the Delta Society International.

TJ: When you create these systems or indicators, do you alter them constantly to adjust to changes in market behavior?

Absolutely Not. That is a recipe for disaster. I call it fooling oneself.

TJ: What is the Volatility System and how did it come about?

I think the Volatility System is the best, but most over-

looked system in the New Concepts Book. In 1993, Futures Magazine did a study on trading systems, and declared then that the Volatility System was the best system up to that time. The system is also on George Pruitt's list mentioned above. The basis for the system is my discovery of True range. The system has two parameters that should be adjusted for each commodity. One is the number of days in the Average True Range. The other is the distance from the close of the high day to the SAR (Stop and reverse.)

Part VI: Recommendations

TJ: What books would you recommend to our readers?

To tell you the truth, there are no so many books out on technical trading, I have not been able to keep up with any of them. However, I have a lot of respect for any books written by Tom DeMark. Look him up on Google.

TJ: Do you have any final comments you'd like to share?

I really enjoyed writing this. Your questions were very well put and covered about everything that one would want to know about trading. I hope that my answers have been beneficial to your readers

I am over 70 years old and my abilities to do what I have done all my life are not as sharp as they used to be. Over the years, I have written three books on technical trading and trading systems and one book with the modest title of "*The Wisdom Of The Ages In Acquiring Wealth*".

If I had only known in my youth what is in this book, I would be much wealthier than I am now. The book is all conversation between the teacher, Mr. Richmond, and the students. I would urge you to get a copy from Amazon. Read it yourself and then have all your children read it.

In closing, here is something kind of interesting. My name is spelled Welles Wilder. The only other person who I have found that spells Welles with two e's is Orson Welles. So if you look me up on Google as Welles Wilder you will get so many hits. However, if you look up Wells Wilder you will get three times as many hits. The bottom line is that three fourths of the people that make reference to me don't even know how to spell my name!

Well, I really appreciate your insight and thank you for your time.

Interviewed by Stuart McPhee