EP108: The Parallels of Gambling and Trading (Part 2 of 2)

Walter: You see, I think gamblers can see this idea of running out of your stake by running into too many losers. I think that's more obvious to gamblers than it is to traders because I think traders are over...

Announcer: Two Traders, Darren and Walter, pull back the curtain on profitable trading systems, consistent money management, and profitable psychological triggers. Welcome to the Two Traders Podcast.

Walter: Welcome back. It's Walter here and this is Part Two of Darren and my conversation about gambling and trading. We're going to talk about how some cultures look at trading in a completely different way.

How Darren completely change his view on gambling and how it relates to trading. We'll talk about a professional gambler and how he views the crowd. What the sucker's bet is and how this relates to trading with retail trader at large.

Also, you'll see some of the interesting parallels that Darren draws between gambling and trading. This is interesting because the perception of gambling has changed over the years and recently in particular, and so, we're going to see how this actually feeds into how you may view trading and how you may view your odds.

All of these and more in this Episode, Episode 108 Part Two in the Two Traders Podcast.

As you know I mean, I think that when you go... Like, it's interesting isn't it? Like, in Australia, when you go to the horse races, they make a big day out of it. Everyone gets dressed up or whatever but that is only a couple of times a year, really, when they do that.

In the financial markets, you've got to put on a suit, you've got to drive a nice car, you've got to go to a big tall building in the middle of the city because that's a really important thing that you are doing. But, in the end, I think it's just because the banks don't bet on horses. You know what I mean?

You can probably take lots of courses on what and how to figure out if a stock is worth money. If you go to college, you could probably take a lot of business courses on evaluating stocks and companies and all that and reading balance sheets and all that but you're probably not going to find very many courses on game theory and gambling theory.

That's not going to be one of those things that comes up a lot so it's probably just more perception than anything. The perception is that because the banks are making money at this -- and let's be honest the odds are stacked in their favor, really -- it's easy for

them to make money. It's only when they get a little bit greedy that they get into trouble.

I don't think people realize that banks are really part of the engine that makes money appear out of the thin air. When you go and put your money in the bank, that gives the bank license to print 90% more money than you gave them and go out and loan that out. You know what I mean?

In some cases, 98% more money. You deposit $100,000, that means the bank can go out or now they can give out $900,000 in loans because they've got your $100,000 sitting in the bank. People don't realize the banks are part of that.

I think it's just more of a prestige. It looks more prestigious. Like you say, I mean I know you like this idea of control and it feels like you have more control if you just pick when you buy the currency or which stock you buy or whatever.

You feel like you have control if you can go back and look at the date and see, "If this would have happened, if I would have done that." That sort of thing. I suppose you could do the same thing if you're looking at sports gambling but it just feels like there's more legitimacy when you can go and a get a college degree in essentially investing or accounting but you cannot really go and get a college degree in horse racing.

Darren: I sometimes think people think they're playing a different game to what they are in trading. They make assumptions about trading being a specific game when really it isn't that game you know.

Walter: Yeah. I mean, the most common one that I run across is people, they say, "How do you keep track of all the information?" In other words, they assume that to be a trader, you have to use a lot of fundamental analysis. You have to be on top of all that.

I don't believe that to be true but that's the default sort of thing that everyone thinks, that in order to trade the markets, you have to know the markets. You have to read all the news and understand all that.

Well, if you go back like if you were to go back and backtest the headlines, go back and see, just have a quick look and see, just look at the front cover of the economist and see if that would make you money. I think you would be surprised at how often doing the opposite will make you money.

Darren: Yeah, this is the interesting month for me. I mean, right at the moment, I'm kind of obsessed with fairly low win rate systems because I've got this bee on my bonnet that, really, that is almost the most important part.

That's slightly misleading but when I say a low win rate system, I mean that in general you're holding your trades for much longer. You know very a lot less of them are going to work out than the ones that do tend to be really big winners.

I'm kind of going down this route that I'm trying to remove all of the elements that I don't believe. They can make a difference but the amount of difference they make is very subtle and it's not really going to help you in the long run unless you get really lucky.

I'm just going to try to boil it down and what is just the one or two things that really matter. I wonder whether the same kind of rings through for betting because you should go and I supposed the fundamentals of horse racing would be you'd look at the track, you'd look at the weather, you'd look at the horse's past performance, you'd look at the jockey and the trainer and then you make your bet.

Obviously, then you've got to look at the odds and your risk/rewards of the scenario, how much you're betting, as well. But, can you do away with all of the fundamentals and just say, "Well, the odds on this are four to one. I still got a chance of winning if I just bet on 4 to 1s"?

Is that the most important element? Can you do away with it or do you still need a bit of the other as well but which bits is the most important. What's the fluff?

Walter: Yeah. One thing that strikes me when I listen to the sports gambling podcasts is the professional gambler. He talks a lot about like trends and things like that. You know, he'll say things like, "When the winner of the Super Bowl plays their first game of the year and next year, typically what they'll do is..." "The team that wins the Super Bowl gets to play the first game of the year then the following year and so..." He talks about how often they win the game.

He's playing a lot of odds and he will talk about other things like, I don't know, whatever. A team has to fly across a country or something like that -- so a West Coast team has to fly to the East Coast -- and how that decreases their odds and things like that.

What's he's constantly doing... To me, what I've noticed -- and the little that I've understand is that -- he's looking at two things. He's looking at what he's believed to be his edge which is basically his training system so there's the stats that he relies on. But, more importantly, he watches the crowd and he waits for the crowd to, really... It's almost like he's picking his entry into a trade.

Like, he knows what trade he wants to take and then he goes down to a lower timeframe to zoom in and cherry pick his entry and that's when the crowd is

completely... He knows the crowd has completely pushed it too far and that's when he'll go in and he'll snap up and he'll place his bets.

Darren: Because he gets better odds at that point, does he? Because the odds have shifted.

Walter: Yeah, the odds are shifted so much. It's a really fascinating thing to listen, to hear this guy talk about how... Like for example, here's one that he mentioned. He said that typically, like they have odds in Las Vegas if you follow American Football.

I know I keep talking about American Football and I know a lot of listeners do not even follow it and I apologize but it doesn't matter. The sport, what they know is that a lot of fans will overestimate and they're over optimistic -- it's optimism bias, basically -- that their team will win more games than they actually will.

And so the bet, to bet the over, so they have this over under bets for you can bet on how many games will your team win in the following year. There are 16 games in the season for every team and then if they go on to the games that lead to the Super Bowl so they have this odds, like 9 and a half, or 10 and a half games. If you bet the over, which most betters do, most amateur betters do, that's kind of like known it's like the "suoccker's bet". You now what I mean?

He talks about how, if you can, if you can get a really good number on the under, then do it. You know, that sort of thing. That's the kind of way that he approaches it.

Darren: Yeah, cool. He's using a combination of things. In trading terms, he's considering his entry but he's also considering how much he's likely to make out of it. Even if it's a good entry and the risk/reward is not favorable enough, he'll wait until it is.

Walter: Yeah and he's always aware of risk/reward. Although, they mentioned that things like there are lots of soccer bets out there were like it's basically like 3 or 4 bets all rolled into one.

And so, you know for all of these things happen and you get paid out 200 to 1 or whatever but they never happen. You can make that bet 200 times and you're still probably less unlikely to move and hit it. You know, all these sorts of things.

When news comes out... So, news will come out that the star players aren't going to play or whatever, so that will affect the odds. Those are the sorts of points where he would swoop in and place his bets based on basically the market. There's a shock to the market, essentially. Yeah, it's fascinating.

Darren: Yeah and they sound like there's simple obvious strategies but the money management side of it is considered as well. It's a really good example of how we should trade.

Walter: Yeah, exactly. Exactly, right. The whole thing. Like, he was talking one time about how he used to have -- because he lives in Las Vegas and he used to have all of these guys who have like working for him. They're like golfers or whatever. They would all go to casinos and he would wait because they're always waiting for the perfect time to place their bets.

He'd be running around town placing his bets at all these different casinos within like 15 minutes. He had to hire people that would help him to place these bets because they all had to be done within 20 minutes before the kick-off of the game or whatever. You know things like that. It's really interesting.

Darren: Yeah. You have **to put up the link** for that. I'd like to listen to it.

Walter: Yeah, I will. He is an interesting guy. It's funny because the guy that interviews him is a total meathead. He's a former player and then he will just... Like, sometimes he just loses his cool and he is just like, "No man, that's not how it is." He's like, "I play the numbers." You know what I mean? He's very direct and sort of like sometimes you can tell he's getting a little bit frustrated with the former player.

Anyway, so when it comes to gambling, do you think -- drawing the parallels with trading -- do you think that when it comes to gambling that gamblers... See, I think gamblers can see this idea of running out of your stake by running into too many losers and consecutive losers.

I think that's more obvious to gamblers than it is to traders because traders overestimate their ability to find winners. I think that's one of the dangers. I think it's like this hidden thing that traders don't consider. I think it's simply because they feel like they want trading system that has 35% win rate.

Darren: Yeah. I think I miss this point that I'm trying to make earlier. I think traders somehow see it as a distinctly different game to say, betting on horses. To me, they're so similar and I think that's where a lot of traders come on stock because they think it's a different game to the game that they're actually playing.

I don't know. Maybe it's just more appealing to think of it as a different game. Then you can somehow subsight how to get the winners and I think when you're betting on horses you kind of accept that the outcome is uncertain even if it is a favorite.

Whereas, in trading we kind of have a... You have setup a UCSPN, sure thing, and the expectation for it to win just seems to be a lot higher in trading. I don't know why that is. I think it's because, like what you're saying, it kind of has this image of being more authoritarian and straight down the line but I think that might be changing as well.

I think gambling is kind of taking on a slightly different persona. It's becoming... I remember when I was young, if someone said they are professional gambler, you'd think they are bit of a wide boy and a bit douchey. I think it's got more sophisticated look about it now.

I think trading is probably going near that way as it becomes more and more popular and there seems to be more sorts of scams out there and this kind of a whole Instagram trader thing that perhaps trading is taking more of the negative image, a more reckless image.

Walter: Yeah. Reckless, yeah. I just really want to see if you can **post in the show notes an image of what a wide boy looks like.** That's what I would ...

Darren: That's another term you have in the states.

Walter: I've got to see it. I've got to see it now.

Darren: Okay.

Walter: Alright, cool. The other thing I just thought of, Darren, when you were saying that was... I think gamblers have an advantage because if you're gambling on a game, like let's say you bet on the underdog and the underdog is winning the whole game, at the end, the favorite wins the game.

You're actually winning that bet for let's say of the 40 whatever, 60 minutes of the game, you were winning the bet in the last two or three minutes, you lost. You're actually winning the whole time and then you lost.

I actually watched, in the last Super Bowl last year which was the Super Bowl that was in February of 2017, I watched this... There was this website that had the odds of each team winning and these lines would go up and down as things would happen in the game.

These teams in the American Football, they're like employ statistician to tell them whether we know like key decisions in a game. The statistician will hate call in to the coach and tell them what to do based on the odds and whatever but so they have this running thing.

It was amazing to see because one team had, I don't know like, a 92% chance of winning and then the odds completely crossed and the other team actually ended up winning. All of these things had to fall into place for it to happen.

It's a very exciting game but I think the gamblers -- this is a long way of saying -- I think the gamblers have an advantage because they can't pull the plug on the bet. Once they put the bet down, it's like a binary option, right?

It's like a binary option trade. Either it's going to hit the level or it's not. But, traders have this distinct disadvantage of the tempting act of pulling your profits early. You know what I mean?

Darren: Yeah. We can't mess with the bet once it's on, can't we?

Walter: Yeah. You've just completely changed your risk/reward ratio and I think that's a big mistake. I think that happens all the time and people will look at me like I'm crazy. Like, I had this trade on the GBP/JPY. It missed to take profit by just like, I don't know 3, 4, 5 pips and this was like 200 and whatever pip, you know. Two hundred sixty pip profit or something like that. I don't know.

People look at me like I'm crazy. They say, "How can you not take profit when it's that close to that take profit?" I'm like, "Well, if I do that, if I take, you know it'll come back up and stop me out of my break even." So, I look at it.

I've trained myself to look at that as a trade that never happened but some people are looking at me and go, "Dude, are you kidding me? You had like 2R or 1.99R available to you on that trade and you didn't take it. You're an idiot. The point of trading is to make money."

But my point is if I keep doing that, if I keep trading the last trade and if I keep taking my profit too early, I'm not trading that system that I tested before and so I can't do that. I think that's a slippery slope that too many traders, they just ruins them by taking profit too early.

Darren: Their decisions are somehow better than the system which begs the question: Why have you even got a system in the first place?

Walter: Exactly.

Darren: Now it's like... There's a saying. It's like the saying, "Nobody ever lost money by taking money off the table" or something.

Walter: Yeah.

Darren: Is that a trading saying? Where does that come from?

Walter: Yeah.

Darren: It's just rubbish.

Walter: Yeah.

Darren: Just rubbish.

Walter: No one can get broke by taking a profit.

Darren: Yeah. And, it's just obviously completely out of context. There's so many of those like that. These trading idioms and then people are just like watched them to anything they're doing.

This guy might have been a trader for a bank that he's trading in a particular way. That little quote probably meant a lot to the way he's trading but it's just I find the people just kind of whitewash those for everything and they will be alright.

Walter: Yeah, exactly. I think that's the last thing I want to say for this episode. I think it's true that we have disadvantage as a trader because we don't have to stick to the to the risk/ reward ratio that we jumped into at the beginning of our trade. Whereas, a gambler has to. They have no choice but to wait for the house to pay them out or not and the trader can take profits early and that's a dangerous, dangerous thing.

Yeah.

Darren: Yeah. We can essentially break away from our system but for gamblers I suppose, especially in horse racing, once you're in, then you're in. It's much harder to mess with your system.

Walter: Yeah. We can, traders can, change the odds for the trade after the trade starts and the gambler can't. Once the gambler puts his bet down, he can't change the odd, the odds are locked in. But, for the trader, he can completely change the odds of your bet, of your trade, after you are in it which is just madness when you think about it but, yeah.

Darren: The funny thing is whenever I'm in Thailand and I talk with my Thai friends and they ask me what I do for a living and I explain it to them, they'll say, "Oh you're a gambler." They all say it.

We both fail every single one of them and then they kind of give me that kind of look like, "You're sure you want to do that? You're among those who's going to lose your money." It's really funny.

Walter: That's awesome. Yeah, that's right. So you've been, you've basically been brow-beaten in this ambition and you say, "Yeah, yeah, yeah. I'm a gambler."

Darren: Yeah. I think it's got -- I think gambling's -- got a very negative connotations in Thailand and it's illegal but it's still like many things are illegal in Thailand it still goes on. The Muay Thai fighting especially is you know it's all gambling.

Walter: Wow. Darren, thanks so much for the time and I really appreciate the topic. I think it was something that people... Hopefully they've enjoyed over the last 2 episodes because I really think it's something to think about. It helps you to see trading in a different light so I really appreciate it.

Darren: Okay, Walter. I will speak to you soon. Bye.