

2 TRADERS

[EP111: The Dice Man](#)

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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 to the Two Traders Podcast. It's Walter here. Hello, Darren.

Darren: Hello, Walter.

Walter: So Darren, I'll put this in the show notes for people who don't know what the heck I'm talking about but there's this cult hero. I don't know if you've heard of The Dice Man but there's this book called "The Dice Man".

We'll put some links about the fellow who wrote "The Dice Man" book and there was some subsequent books as well. Have you heard of "The Dice Man"?

Darren: I hadn't known but I have heard of Donald Duck and he did a story along these lines. I'll get to that in a bit.

Walter: Really? Interesting. You can read the references in the show notes for this episode but essentially, The Dice Man, he lets everything in his life occur as a roll of the dice. It almost... Well, it does become like his religion and he takes it to the extreme.

When they interviewed the author, the author wrote the book under a pen name. I don't even really know what's the author's real name is but it's in the link so you guys can read.

He wrote under the name of Luke Rhinehart. Apparently -- see I didn't realize this -- apparently, it's like a cult classic and I used to read it. I read and I just saw it was hilarious.

I would just read it in like coffee shops and people will look at me funny because I'll be the guy over there cacking myself from the corner and I just laugh. It was such an interesting book and it brings up a lot of points like, it's quite deep actually.

The only reason I even read it -- I don't read a lot of fiction but the reason why I read it -- was because I went to one of those book stores where they have the staff there who will put little cards. They'll tape little cards to the certain books that say, "I recommend this book. If you like books like this, you'll like these books."

That book was flagged by one of the staffs and so that's why I picked it up and read it. And then I read some of the other books that he had written as well under that pen name. I thought they're brilliant but the reason why I bring it up is because, obviously, to link it back to trading.

This guy is basically living. Essentially, he doesn't really care what he's going to do. He just knows that typically what the rules would be is that he would have a 6-sided dice and he would roll it and there will be five things on there that he would do that were kind of like it didn't really matter which one of those came up. And then, one of them would be that really he didn't want to do that would be the 6th one.

He would just keep rolling those and keep doing it and let his life sort of end up where it may on the roll of the dice. My question is, can traders learn something from the Dice Man?

The way I think about it, he had some sort of an irreverent attitude. I wonder if this irreverent attitude would have just kind of whatever. Like, there's nothing sacred, cannot help with trading. That's basically the long roundabout way of getting to that point. I'm just interested in your thoughts.

Darren: Yeah, I've heard of this before and it was called "flipism" when I heard about it. There was a famous Walt Disney Film with Donald Duck where he goes to see the Professor and the Professor spends a penny for the decisions that Donald Duck has to make and it goes really badly for him.

He gets, he drives down a one-way street the wrong way and he gets fined. I think really the important point in this is that with all the decisions, there's kind of a scale from random to rational decision making.

All decisions kind of lie on this scale from one end to the other. The important thing in life is knowing in each individual decision, where on that scale you are. Certainly, there are decisions in life where you might as well be random in your decision making and at the same time, there's decisions where you really should be rational.

Definitely in trading, there's certain decisions that we struggle with that are lying right down on the random end of the scale. The scale really is being able to decide where these decisions lie.

If you want it to decide, "Should I eat this year or not," you don't really want that to be at the random end of the decision making because if you don't eat, you're going to die. But, what you're going to eat this year, then that can be fairly random and the actual effect on the outcome is not going to be severe.

You really need to look at the outcome. The good idea that I've got from this was that you should look at the worst case scenario in your options and then decide which worst case scenario, based on your two options, is going to be the worst.

Sometimes, that is the best that you can do. That's a difficult thing to do with trading because what we really want is certainty so we don't really look at the worst case scenario.

Walter: Yeah, but it's control, right? We want to have control. We want we don't want to feel out of control.

Darren: Sure, yeah.

Walter: I mean, that's like if you talk to people who pick lotto numbers, I suppose that -- I don't know but I am guessing -- most, maybe I'm wrong, but I'm guessing that most people who play lotto, they would want to pick their lucky numbers.

Darren: They like to have a system even though that system doesn't give them any particular edge. They would still want to have that system.

Walter: Yeah. If you were to play lotto, you would pick your kid's birthday or your lucky jersey number that you wore when you played football or whatever. I had an argument with a guy in college where he was explaining to my friend and I how there were certain numbers that are statistically more likely to come up in lotto drawings.

My argument was that if anyone have compiled a book like that, I would definitely be betting, if anything, the numbers that don't come up or haven't come up because there's more... You know what I mean? It's probably going to be even out in the end sort of thing.

He was adamant that, "No. There are certain numbers that are actually lucky numbers," or whatever that they would come up in their books published on this sort of thing which I thought was fascinating.

Darren: Yeah. But I mean, I definitely wouldn't have a system for picking lottery numbers. That's one thing that I definitely would not do because the one time that you don't buy the ticket, you know what those numbers are if they come up.

Whereas, if you're completely random then at least you're protecting yourself from that worst case scenario. The worst case scenario in the lottery is knowing that you could have won it and you didn't play. That is the worst case scenario.

Walter: Yeah. Well, it's like trading. I mean, the worst pain in trading is to trade going and you forgot to enter it or whatever. You forgot to put it in your platform and it just takes off. I think that's a much more painful trade than the one where you get in and it stops you out. You know what I mean? That sort of thing.

I think it's the missed opportunity that we, as traders, we're drawn to opportunities and that it's the same sort of idea. But, I just wonder if there is a larger percentage of lotto traders -- lotto players -- who play their own lucky numbers or just "let the machine pick my number" sort of thing at random.

You know what I mean? It seems like I would guess that more people will choose their own numbers than there would be a proportion that would say, "Oh, it's so random. It doesn't matter. Just whatever numbers. I just want to play."

Darren: Yeah, I agree. I would also argue that most of the people that pick random numbers are doing it just because they're lazy.

Walter: Right.

Darren: I'm sure that some people out there understand the probabilities and statistics and will just pick a random set of numbers. But, at the same time, most of those people probably are not going to be buying lottery tickets anyway when they understand the odds.

Walter: Exactly. Because lottery attacks on people who are not good at Math.

Darren: Yeah. Or, they're not good at making rational decisions. I mean, there's a lot of people who play lotto are really smart. They know what the odds are but that slim chance and maybe there's somethings so bad in their life, they're still gonna go for it.

Walter: Yeah that's the thing. I mean, with lotto, your odds of winning are nearly zero. It's close to zero as possible. However, if you don't play, they are exactly zero so it's one of those things.

Darren: Yeah, that's it. Maybe that slim odd is, maybe well, clearly so many people buy lottery tickets than there's a lot of people who are unhappy in their lives because they're looking for anything to try and change it.

Walter: Yeah. And yet, the sad thing is that if you look at a lot of people who -- and I wrote about this in the Naked Forex book -- there are some famous stories of lottery winners, a big chunk of them end up back where they started.

They say things like these, “The worst thing that ever happened to me blah, blah, blah. It’s like a curse.” They just wanted to go away. They just wished it never happened to them.

Darren: There’s a famous story. The Spanish farmer guy. He thought he was picking his numbers because of a Mathematical system but he actually added his numbers up wrong and he still won. He still believed it was his system that made him win. It was brilliant. It was like the biggest Spanish lottery of all time as well.

Walter: Really? Well, that was fascinating. So, people explain to him that he actually executed his system on the wrong manner but he was adamant that he still... That’s why he won.

Darren: He didn’t even realize that he’d executed it wrong. He did an interview on the news and he explained the system how he came up with his numbers. It was clearly obvious that he added them up wrong. It’s like you know real simple $7 + 4$ something and he got it wrong. He still believed that it was his system that made him win.

Walter: That’s awesome. Oh, that’s funny. So thinking about the way that you’re looking at the Dice Man who lives by random... And, by the way the author, he admitted that’s how he met his wife. Where he was driving in his car or his truck or whatever and he saw some girls walking on the side of the road.

He said -- I think he had a coin or something -- he flipped it and he said that, “If it lands on heads, I’ll turn around and go back and talk to those girls. If it lands on tails, I will keep driving” or something like that. That is basically the story of how he met his wife. It lands on heads, he turned around, he started talking to the girls and whatever.

You’re saying that you think that the Dice Man, the biggest thing that we can learn from the trading point of view from this sort of life, this random living so to speak, is that you’re identifying that some decisions that you make doesn’t really matter what you choose and other ones are a little bit more important. Is that the basic idea?

Darren: Yeah, certainly. Some decisions, being really rational, is going to help you and in some decisions, random decision is just as good as any other. The important thing to do is to be able to group those decisions and which ones require to be rational and which one is not really going to help.

Walter: So, how do you know?

Darren: Well, the only way you really know is by data.

Walter: Right.

Darren: I mean, what you can also do is listen to traders who are successful and what they say.

Walter: Yeah.

Darren: Although, that is kind of slightly flawed as well.

Walter: Agreed.

Darren: As an example, let's say you're agonizing over a decision about what is the right exit strategy for your trading system. Let's say you did it on a fixed exit, say at 50 pips, 100 pips, 200 pips or 1R, 2R, 3R and you test all of those.

You find that the winning strategy is tend to be say from 2R to 10R, then you know the ballpark of where your exit strategy needs to lie based on the market conditions that you tested.

You're presuming that those market conditions are going to be similar going forward. There's nothing you can do about that. You have to allow some of that randomness in there.

Now, there's no point agonizing over whether you should have exited at 2R or 4R or 5R or 6R. You know that in that ballpark, it's going to be profitable. You shouldn't agonize over being able to get the best exit all of the time. You just know where you need to be so you need the good exit rather than the best exit.

Walter: Right. What happens if your focus is in the wrong part of the scale though? In your example, you said you tested it from 1R to 50R but, how do we know that we are even on the ballpark?

What if it turns out for example -- I'm just playing the devil's advocate -- but what if it turns out that the 0.2R to 0.5R trades, you know that's the best place you want to be in terms of your exit. You know what I mean? How do you know that you're capturing the most fruitful area, I guess?

Darren: With that, you'll never know that because you'll never know that and you shouldn't really be looking for that. You should be looking for a good system, not the best system because there's so many variables in play that in the period you tested, the best system is not necessarily going to be a good system. It's not necessarily going to be robust. As you'll never know that, you've kind of have to allow for that variants.

Walter: Yeah, now I agree. What you've just said that sort of describes Science. Science believes that the way that you discover information is through the scientific method. You hold some variables constant and you randomly assign others.

The belief is that we're basically controlling, or explaining or statistically restraining all of the variables that are affecting the outcome of the study and then we know. That's why they do double-blinding and all that but the truth I mean, the reality is we could be wrong.

We could be wrong. It might not matter that the person who gives you the sugar pill or the drug pill doesn't know whether or not it's a sugar pill or a drug pill. It might not matter that they are the same size, same weight, everything's the same and everything is double blind and all that in the typical double blind study.

What if, for example, the most important variable is whether or not the experimenter, the person who designed the experiment, believes that this is going to happen or that's going to happen?

What if it turns out that we look back 500 years from now, at Science we say, "We were doing that silly stuff". We thought that double blind studies really sort of demonstrate what was going on.

We didn't even realize that it's actually your beliefs that can direct the results. What if, I know that sounds a bit whoo whoo to us now because we live in the age we do but it could be something like that.

Just like looking back right now, we say, "Those doctors back then, can you believe it? The cutting edge treatment back then was bloodletting." That's what they did for you. Bloodletting. You know what I mean? That's to me I mean, you just never know. You can never be sure that you're really focusing on the right thing.

Darren: Yeah, you just kind of have to go with the best probabilities that are available to you. That's the mindset thing and that's kind of, I think even people that know that still find it hard to grasp.

Walter: Do you think that if you set like somebody that you know quite well, you said, "Look, I think you should just take this dice and let it determine all of your decisions." Explain the rules. Just pick 5 random things.

You say, "Right now, I'm going to go and get a meal if it rolls to 1. If it's a 2, I'm going to go outside for a walk. If it's a 3, I'm going to go shopping for pots and pans. If it's a 4, I'm going to go on a road trip. Get in my car and drive far away. If it's a 5, I'm going to call up an old friend that I haven't spoken to for years. And if it's a 6," I don't know.

What is something that you don't really want to do? "I'm going to go change the oil in my car" or something. I don't know, whatever. So if you said that to the average person, what do you think they would say? You say, "Go do this."

Darren: The interesting thing is they would think that you're crazy.

Walter: Exactly.

Darren: But the reality is that, most of the decisions we're making kind of you know when you understand human biases, we're doing that most of the time anyway.

Walter: But we're tricking ourselves because we're convincing ourselves that we're rational.

Darren: Yeah, definitely. In a decision where being rational, it's not really of any help at all.

Walter: Yeah, exactly. Even the academics will say that the reason why people make decisions is economic theory, it's all based on this idea that we're completely rational. So, if I give you an envelope that has a 100 GBP in it and then I say, "I've got this other envelope here and you can have this other envelope. I can't remember what's in it. It's either got nothing in it or it's got 200 GBP."

The economic theory behind that, whatever economic behavior, whatever economics, whatever it is, they basically say, "Well, the rational thing to do is that, it's fine to take the second envelope because the expected money in there is equal to the envelope that you have which is a 100 GBP". But, the reality is that most people, most traders will never take that second envelope.

They will almost always take the first envelope and just stick with that and not take the chance of doubling their money. I know this because I've done this with traders. In every single trader I've ever done that with has kept the first envelope bar 1 and she said, "I'm only doing it because I know that this is an experiment you're doing."

You know what I mean? She wouldn't even have done that. So I mean, that Shows that if we are rational, what we would do is we would weigh out the odds and calculate it in the back of our head and we'd say, "Yeah, I'll take the second envelope" but the fact is people don't do that. They don't think that way and we can explain it away and say they were rational but we're actually not rational when we make the decision.

Darren: And what's really interesting as well is being smart doesn't help you at all because when you're really intelligent and smart, you tend to suffer from things like confirmation bias more and you're well skilled at twisting data to fit your own beliefs anyway.

Even if you've had good data that disagrees with what you've decided the answer is, you'll be really skilled at twisting that data to fit your own belief and has been proven though being smart doesn't help you.

Of course, it's really interesting what you said that about the one person, they didn't know the answer to the puzzle but they knew that their gut instinct was probably wrong because they understood about how we make decisions. The obvious answer is rarely the best decision and she probably went on to become a really good trader because I think that's how you've got to think really.

Walter: Yeah, she's well on her way. It's interesting to me because what you've just said about basically that a high IQ mind. When I hear that, it reminds me of people like Benoit Mandelbrot who's got this really elaborate and coherent theory about the random list of markets.

I think, if you'll explain to someone like him, the way that for example you trade, well, you don't really give much thought at all to the entry of the trade. It's all about the management of the trade. I don't mean to misrepresent the way you trade. Is that fair to say?

Darren: That's very fair to say, yeah.

Walter: Yeah. But, here's this guy, right. He spent all of his time thinking about problems and he came up with the mental broad set, Chaos Theory, blah blah blah. It's one of the defining theories of our lifetime essentially and yet, he's got this idea in his head. I think he's dead wrong.

How can you make money in the market? It's just a random dance. If you just peel it back, it wasn't so smart. It'll just a smarty pants and he just did something like what you do, he could actually make money. He could but he's getting in his own way.

Darren: Yeah. Definitely. We do that a lot.

Walter: Yeah and it's not just trading. We do it with everything. We do it with everything. Everything. I talked to a guy. I know a guy, he's a great business person. He's kind of like a hippy and he grew up in a commune.

He explained to me that the commune that he grew up on was one of the last remaining communes in the United States. He said that a hundred years ago, a lot of people basically lived essentially in communes or whatever and then as society grew they've kind of grew out of that and turned more into like these nuclear units.

He was explaining to me that the reason why his commune and I think one other commune survived in the United States and still in existence to this day is because they understood one thing.

That one thing was that communication was key to the survival of their community and that's it. It was just communication. As long as everyone could communicate well, they were pretty certain that they would survive. That they will get along.

It wouldn't necessarily be smooth sailing but they would definitely understand each other and as soon as the communication broke down that's when those communes sort of dissolved historically, that's what they found.

That's probably the defining feature of this dude's life. He is a really good communicator because it was drilled into him and it served him well. He's done well in life simply because he's so concentrated on that one idea.

The reason I bring that up is because it reminds me of your approach to trading which is, I'm not really going to worry about all of these others stuff. I'm not really going to worry about all these other things that I could get caught up in. I'm just going to concentrate on how do I get out of this trades that I'm in.

That's it and if I can work that out, if I can figure that out, then I'm going to be ok. I think when you complicate things like Benoit Mandelbrot did and other people they make it too tricky. It doesn't have to be that tricky.

Darren: Yeah. In systems, you've got to be able to pinpoint the systems within that system that are making it work and those elements that are not making too much difference in the outcome.

If you've put in all of your effort and forth into the the elements that aren't making much difference to the outcome then you know your chances of success are reduced greatly.

For me, it's the management of the trade but that isn't the only thing. I'm not saying that the entry system has no effect but I believe it has a much greater effect to focus on the management of the system.

The money management of the system. How you exit your trades? How big your losers are? How big your winners are and the amount that you risk on the trades. To me, that is the cornerstone. It's not the only thing but that's where my focus lies.

For me, it's not on the entry. Now, there's going to be people that can perhaps disprove that or disbelieve it and still make profit. That's really down to each individual, for them to decide but if you get that right then you know the probabilities are in your favor.

Walter: Yeah, so let me ask you this: Do you think that if someone made Dice Man decision for their trading, just-roll-the-dice-buy-sell or whatever, do you think that they could make money?

Is it possible for them to make money using the dice as an entry? So, I guess you could use a coin really like buy or sell or maybe buy sell or nothing or whatever like three possibilities.

Darren: Yeah. Well that mean is, that the very famous study was Tom Basso, who did a study on random a entry and he proved that it could make money with a good money management, a good exit system.

And then that was repeated by some guys in Holland I think as well and they agreed with the study. Whenever I've seen studies on random exits then they've never produced profits.

So yeah, I definitely think with regards to entry it could be used but the important thing to get from it as well, even if you buy into that is that then, that can be improved with an entry system as well.

So, it's really important to stress because this is the problem. When you suggest this, people don't buy into it because they see that certain an entry systems have an edge. It iss important to make it clear that you're not saying that the entry system is pointless. What you're saying is, it's one of the least important elements and you shouldn't make it the most important.

Walter: Yeah, exactly.

Darren: But I think things like the Psychology system is more important than the entry. I think the money management is more important. I think the market condition is more important than the entry as well. See, you have to put them in order for yourself and build the system around that.

Walter: I wonder what the Dice Man would be doing, if he took it to extremes say, the Dice Man is a trader. He would probably rely on the dice for his entries and his exits. He probably wouldn't necessarily end up ahead or wouldn't necessarily make for a good trader.

But, I do think this approach, this idea of nothing is really sacred that you can really kind of, because here's the thing like, if you go on to a group of traders and say, "I'm going to share with you a very simple system that would make money for you. Here's how it works. Flip a coin if its head, you buy. If it's tail, you sell. You set the stop loss at 100 pips and you take profit at 400 pips. That's it. That's the system. Thank you very much."

If you were to present that to a bunch of traders, I think the vast majority of them will look at you and say, "Are you serious? Really? That's your system?"

Darren: Yeah, I think they would.

Walter: Does it make sense?

Darren: Well, I mean, that's been proven that they would.

Walter: Yeah, exactly. But yet, if we talk about the cycles of Saturn, then okay, now we've got something.

Darren: Yeah. Really by that statement, by even presenting that system, what you're saying is that, if you have winners much bigger than your losers then you have got a slight edge. It's what you are saying.

Walter: Yeah.

Darren: You shouldn't be really saying that this is a winning system. You're saying, "This is a money management system that can be applied and give you an edge." Then you can then, going to more depth on that.

Walter: Yeah, exactly. I mean, I recommend the traders do something like that in forex tester when they are wondering about trailing exits or they're wondering about reward to risk.

Those are the sorts of things that makes sense to me is, when you're trying to figure out how do I. When you're thinking a lot about exits, that's a good way to sort of present it so that you would have this data to go, "Wow that's amazing. I was just using a 4 to 1 exit and that's what happened." That sort of thing.

I guess, the only reason why I want to bring up the Dice Man is because one of the famous comedians in the United States when I was growing up, his name was Andrew Dice Clay.

I didn't realize that the reason why he had taken that name Andrew Dice or Dice Man or whatever, it was really Andrew Dice Clay was because he was a big fan of the Dice Man. He kind of had this sort of devil-may-care attitude on when he was on stage and he was really popular when I was probably I don't know 12 over 13 or something like that.

I never realized that this was such a cult thing - the Dice Man book. But, I think it allows you to take a step back and think like, you've been saying in this episode, Darren, what are some of the things that actually do matter and what are some of the things that are not. Your decisions here really it's not that critical but we tend to over play things.

We kind of makeup these stories. Like, if you look at most people's lives, it's like a random hudgefudge of decisions that's why you've ended up where you are today. It's certainly the case for me but yet, when we look back on it and this would probably be more in the realm of the Black Swan by your buddy Taleb.

He would argue this as well where you know we look back on things and we just say, "Oh, well this is why it happened" and we create this nice, eloquent story where everything is all stitched up really nicely but the fact is, the reality is, that's not really how it happened.

It's just with hindsight and we look back at things, we kind of rewrite history and say, "This is why this happened and it slowly happened this way and that." When in effect, our life is just a series of random, strange, off the wall decisions that are made and sends us off pyung to another direction altogether.

That's certainly been the case for me but I think, it's the case for most people. Perhaps we don't see it that way but it maybe, that's the truth. That is kind of what the Dice Man brings to the forefront for me.

It's this idea that there are some really weird random decisions that you make and they completely change your life and maybe that's a good thing. Maybe it doesn't matter so much.

Darren: Yeah. There is an interesting Psychology point on this as well. Where when you've got a decision where being rational is not going to help you and really what you hope and want, your desires are really the important thing and you can't decide either way and you have to decide by a coin flip.

They said that once the coin was flipped and in the air, at that point you know exactly which one that you really wanted the answer to be. The penny dropped then you know when it was all in the line and the decision was about to be made, that's when your mind reminds you what the answer you want it was.

Walter: That's so interesting. It reminds me of the study of the people who jumped off the Golden Gate bridge of San Francisco and they said, "All of the survivors when they're in the air about to plunge into the water, they all had second thoughts."

Darren: Yeah, it's like in trading. It's like you know when you're looking at a trade that's in profit and you're like, "Should I take profit here or should I let it run?" As soon as you hit that button to place the trade then you exactly know where you're making it right.

You can agonize over it for 20 minutes, trying to decide what's the right thing to do. As soon as you hit that close, you're going to know instantly whether you did the right thing or not.

I do that all of the time when I close trades early. I agonize over it and weighing up all the probabilities. I'm looking for the rational answer and the reason on rational answer and then I'm going to close it.

As soon as I hit that close, I know instantly I've done the wrong thing. I couldn't get to that point beforehand and then the reason is because it's uncertain. You don't know that there is no right answer and that's why you're doing that turmoil on your head.

If you can get good at spotting when that turmoil was going on then, you'll get really good at spotting the decisions where you know really, your best is just resort to your system.

This is what your system says. Just do what the system says because your mind is not going to give you the answer. If you can get good at that then you can improve your trading.

Walter: No doubt. Well, thanks so much for your time, Darren. This has been an interesting couple of episodes. I really appreciate it.

Darren: Yeah and I'm going to check that book. Definitely.

Walter: Let me know what you think. Thanks.

Darren: Cheers, Walter. Bye