

2 TRADERS

[EP116: The Evolution of Trading Strategies](#)

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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: Good day, Darren. It's Walter here and you are here at the Two Traders Podcast. How are you doing, Darren?

Darren: Very good, Walter. Nice to speak with you again.

Walter: Excellent! Great to have you here. Our question today is do most successful traders employ the same strategy they started making money with? In other words, once you start making money, do you tend to stick with it your original strategy? Why or why not?

Darren: It's a yes and no again, isn't it?

Walter: Yeah, exactly.

Darren: I do know some very successful traders who've done the same thing for years and years and years and never changed it but I think most do change. If we are talking about successful traders, I'm guessing that they've changed because either the particular market condition that they have been trying to exploit has changed or that they have learned as they've gone along.

I think unsuccessful traders probably change their strategy too much based on what just happened.

Walter: Yeah. It's interesting because I think in our last episode, we were talking a bit about -- in particular, you were talking a bit about -- when something is proven, you'll build your strategy on that.

You were talking in the last episode about when the markets... You know that the markets trend and the markets are probably going to trend in the future so I want to build something around that proven concept and that's going to be my system.

Well, I think that most successful traders do change their "profitable strategy" but it might be kind of still built on the core concepts that they began with. I agree. I think that most traders -- if you're a trader and you're always changing your system -- it probably means either you're risking too much and you're giving into these normal drawdowns that are freaking you out.

Making you believe that the system is broken or that the market have changed when really it's just you can't withstand that drawdown because you're risking too much or you're really not trading something that you truly believe and you're trying to copycat someone else.

That is probably another reason why you would keep sidings with your systems because you're not yet... You haven't really found one that fits with your core beliefs about the markets.

I think it is kind of a "yes" and "no". I do think that most successful traders do tweak their strategies but it's often the case that it's really kind of still built on this same idea. Like I've seen, for example Jorge in the forum.

He will do things like straight trends and he's been trading the systems for years and years on the H4 charts. He started trading on the lower timeframe charts and it was slightly tweaked but it was basically the same idea of taking trades in the direction of the trend and waiting for consolidation and then waiting for it to continue on the direction of the trend.

I think that's the kind of thing that you most often see. It is unusual to see someone trade the same system over and over in years and years but it's not so unusual that they might change, just tweak it a bit, and keep the same core concept.

Darren: Yeah. And, it's not necessarily always a negative to change elements of what you're doing. I think that's just as humans trade anyway, isn't it? I mean, if you've been trading for three years on the D1 timeframe and you're doing well and you're consistently making money and then what's the problem with having to look at something on a lower time frame as well.

Like you say, if the core idea on the same that you're trying to explore the same opportunity form the market but just kind of changing what you're doing a little bit, that is fine and that's not a negative.

I think you can quickly spot when you're making negative changes because it will be made as a result of performance. Like, you have a bad week and then you changed something or it could even be from having a really really good week where you make a massive wins and then you perhaps change your entry rules or something.

Where what's happening is you're not looking at the bigger picture there that what's actually happened that week is you've just either had a particularly favorable or unfavorable market conditions and you've made a gut change to your strategy. I think those are the negative ways to change your strategy.

Walter: Yeah, absolutely. I think also that sometimes what traders tend to do is they'll be in a situation where, let's say that you're trading a trend trading strategy and, the market just doesn't trend for two months.

They start to think, they start to question, "Well, maybe the markets aren't trending anymore. Maybe because of whatever Donald Trump is saying, the markets just kind of not trend anymore." Or, "Maybe because of what people think about Brexit" or whatever.

They'll start coming up with ideas and it's quite easy to convince themselves that really what's going on here is a total shift and because of that shift, you need to react in a different way.

The thing is sometimes those things do happen. Like for example, volatility. The world markets are much more volatile today than they were in 1986. There is more volatility. There's no doubt but I think it feels like there's like a bogey man in the market and people rely on, they use the bogey man as the reason why things have changed.

I feel like if go back and read back the Market Wizards Books, they were talking about how automated trading was going to ruin the markets. They're still talking about that thoday. They're talking about how, "Oh, we had this crash because all the algos kicked in at the same time" or whatever.

We have crashes like that before. There was even such a thing as algorithmic trading. It's weird to me. I think that there's always going to be a reason why like humans we have no problems making up reason why.

I just think that the core, the core things that I believe in trading are these: if you've got a positive expectancy system and it fits what you believe then you should do that. You should focus on the execution of it.

It comes down to finding out what you believe, creating a system that has a positive expectancy around your beliefs and then focusing on the execution and not the result. If you can do those three things, I think you're going to be okay.

I know it sound simplistic and blah, blah, blah and people are probably thinking, "I don't know" but really to me that's the core of trading. It's really those three things.

Darren: How do we go about building confidence in our beliefs? I think it's a problem that a lot of traders have. Say, your belief is that trends are going to recur and if I cut my losers short and then let my winners run then I'm going to make profit.

How do we prove that? That belief is the one we should go with? How do we justify?
How do we validate that belief?

Walter: What I recommend that you do is you get a chart -- and **I can post a video on the show notes** for people. Basically, the way that I look at it is what do you believe is obvious. What do you see when you look at the chart?

I'll give you an example. I'll look at the chart and the market has gone up, up, up, shallow little pull backs but it keeps going up. Some traders are going to look at that chart and they're going to say, "Wow, that's a great trend. I would love to ride that trend."

Other traders are going to look at that same exact chart and this is great about the markets, they're going to look at the same chart and they're going to think, "Oh boy, that's ready for a crash. That's definitely going to come down". In fact, most traders are going to say that.

The point is if you'll look at all these different types of charts and you just say, "Okay, what is my gut belief here? Should I be doing this, this, that or whatever whenever I see these different types of markets?"

Obviously, you've got trending markets, you've got consolidating markets, you've got really really wild, swinging markets and you've got really low volatility swinging markets. You've got really tight markets that are really tight and constricted, not really going anywhere.

All of these types of markets, when you see them, when you see that chart, what do you think? What's your gut? What's your instinct? That tells you where you should start from.

The trader that sees the chart keeps going up, up, up and thinks, "Wow, I want to give in to that trend." They should build a system around trend following and the trader who sees that chart going up, up, up and can't help to think, "Wow, I would really love to sell that."

They need to figure out some sort of swing trading strategy or some end of trend, trend collapse strategy or whatever. That's what they need to trade. They need to trade that. I think what your question is, Darren, is a little bit different from that because you're hinting at the confidence issue.

Which is, I might believe that when I see an upward trending market that I should sell it and find that turning point but what happens if I keep doing that, I'll keep losing money. Is that part of your question?

Darren: Yeah. I think basically most traders get to that stage and then they build a system around that and then they'll start trading it but in the back of your mind, there's always this, "Is this really right? I know I did a backtest last year on GU and the figures are really good and drawdowns are low but am I really right?"

I mean, if I'll just find a little blip here so do we have to find it on three pairs or do we have to find it on five years of data? How do we know for sure that the belief that we hold and the test that we've got, are right? How can we do that? Or, can we do it?

Walter: I don't think you can. I think you really never can sort of like building a case beyond a shadow of reasonable doubt or whatever, you can keep building a case. I prefer to trade ideas that don't have a lot of rules so that they'll apply to multiple markets.

I think that's the more robust way to trade rather than doing the thing where it'll only works on the Euro, it'll only works on 6PM New York time and it's only on the M15 chart. Don't go to the H1. Soon as you go on the H1 chart, it breaks down.

Those kinds of things, to me, those are like blips that gets erased whereas, your really simple ideas that you can zoom in and out on any time frame on any market. Those to me are more likely to maintain. That relationship is more likely to keep going on to the future, I believe.

That's my core belief but I don't think you'll ever really know obviously and we're always going to question it in a midst of a drawdown, that's part of being a trader. I know I've said it a few minutes ago but it's really about focusing on what's going to work, what's going to make you money, and what's going to make you a successful trader.

Which is not trying to modify your system when you're in a drawdown. It's to focus on the execution. If you can focus on, "Am I executing? Did I execute that last trade correctly? Win or lose, what did I do? Did I do what I should have done? If I were a robot, would I have done what I did?"

Those sorts of things, if you can just make it all about execution and not worry about outcome then that's when things can fall into place for you, in the end you'll dig yourself out of those drawdowns. That can definitely happen.

It's just the problem is when we think that we sights too much meaning. As people, we see things and we always say, "Oh, that's why that happens" or "That's why he always does that" and "Her mother was that way too, that's why she's like that".

We've talked about reasons why for everything and it's no different in trading. In fact, maybe you're just in a drawdown and your confidence might be shaken when you're in

a drawdown but really, it's not really you. It's not anything you're doing. It's just the markets not really going to give the system a lot of profits right now.

Darren: Do you think one of the problems is when we try or we want our particular strategy to be the best. Or at least let's say we want to be a trend trader, do you think we've kind of we need to have some kind of, prove that trend trading is the best way to trade?

And then that course is as difficult when we see like different approaches performing well particularly when you're performing badly. Do you think that's a problem that we have as well? I do.

Walter: I had a friend and her parents both fans of different rugby teams and they were rivals. Whenever the father's team was doing really well, he would kind of rub it in mother's face.

And then whenever the mother's team was doing really well, she would and it was kind of like there would be certain season where one of teams would just be completely in the twilight.

They have no hope of winning the championship and so, you know what she would say? I remember one year in particular where the mother's team and she would just kind of like closer years to it and like "walk away". Like, she didn't want to see it.

I think it's the same thing. We want to be on the winning team and so we're going to go out and seek all the information that confirms that trend followers are the best or scalpers they're the best or the swing traders are the ones.

Price action traders, those are the best traders ever blah, blah, blah. I think that's human nature but I don't think that really matters. I really don't think it matters which team is your team. I really don't think so.

I think when we first start trading, because you're asking the wrong questions, you say things like... Because you're kind of looking for the Holy Grail so that might be something that you're focusing on.

"These guys seems to make money" or, "He's got a pretty good track record" or, "he's been doing this for 25 years" or whatever. You might be doing that and it might be more important to you then when you've kind of defining yourself as a trader but later on, you'll just realize it's like religion.

They all lead to the same. they're all going up on the same mountain. It's just slightly different path so I think it's overblown. I think that idea that you're team is the best team is not that critical. What do you think?

Darren: I agree. I think it can be the downfall of a lot of traders. I think a lot of it stems from not clearly defining what you're trying to get out of trading and then building expectations around that.

I think deep down a lot of us would like to just make a decent income from trading but as you get in to it, you find yourself trying to be the best. Having the best system and have the best results and being better than anyone else out there and that can come at a cost of actually achieving what your real aim is.

I think an easy way of dealing with that is clearly defining what you want to get out of trading and perhaps building like a step program to that. I know Van Tharp. He's got a thing where I think he says, Stage 1 should be just not losing money and do that for a period of time. Two or three months or a year.

Stage 2 should be making the same that you would've in a guarantee return. Like, say a savings account bank and step it up. I think we all come to trading and just say, "Right, by June the 1st, I want to quit my job and I'm going to sit on the beach. I don't have to work again." That is just unrealistic.

Then you find yourself with those expectations, getting drawn by what is perceived to be the best strategy. You could start out trend trading, doing your backtesting and have good expectations.

When you're on your 5th or 6th consecutive loser and the other guy on the forum who's a scalper posted six consecutive winners then you're drawn and you lose your way. You'll start making changes based on someone else's success.

Walter: Yeah, it's true. There's where all the little nasty fights and stuff, you'll see those things on the forum where people say things like, "See, this doesn't work. I told you." Things like that.

It's just crazy. It's madness because I get emails from traders who will show me like, "How come this trade didn't work out?" and it's like a trade that I would... Like they're saying that, in other words they're saying, "Here's your system, Walter, and this trade didn't, look at this, what happened here?" Or worse, they'll send me an email and say, "Here's this Kangaroo tail, should I take it?"

Things like that and I'm like, "You know, one I wouldn't even take that. There wouldn't even be a second look for me." You know what I mean? And that just shows you like that's what the markets are. We all see it differently.

Darren: Yeah.

Walter: We all see it completely differently and I think you're right to your point. When your confidence is lowest, when you're really kind of shaken because you're in that drawdown, you're questioning everything. That's when you really need to focus on your execution.

That's when you're most likely to jump ship and that's when you're most likely to give up. I think that is a mistake. I think in most cases, that is a mistake. I know it feels like it's broken, it feels like the world is against you and there's a big conspiracy.

Your broker's spiking you and all that but really, it's just normal kind of process. When you come out of the other side of it, you'll be so much better as a trader.

Darren: We spoke before about trying lots of different strategies when you start out and then in the long... Because, I speak to a lot of traders who've been around a long time and I quite often hear them and I know this is true for myself as well where you started out trading and like you say, you look for something you believed in and then you went round all houses and eventually you end up back where you started.

I think -- I'm so interested if you'll agree with me on this -- but I think there is actually some benefit in doing that. In literally changing your strategy all the time and trying everything out because I find that helps you realize where the real opportunity is.

You'll realize that it's not in the particular moving average you use or particular candle shape. It's a combination of lots of things together built around your core belief of where the main opportunity lies whether it be trend trading or range trading or whatever.

Do you agree that there's actually... It's probably a good thing that you go all round the house, just don't go start trading out and stay with the same strategy?

Walter: I think that it's really hard to do that. I think it's really, really difficult for most traders to simply start out with a strategy, "Oh wow, it makes money" and then stick with it. I think in most cases, there's a real temptation to jump ship or at least double another thing.

I had a friend who decided that he wasn't going to get married. He's just going to date and meet different girls all around the world and I asked him, "What are the differences between the girls in Colorado and the girls in Bulgaria?" He's like, "Pretty much the same, you know." It's like the same thing. That's kind of the same thing with trading, isn't it?

I have another friend who married his girlfriend in high school. It's interesting that both of them seem quite happy and yet as traders, we don't really know what's going on over there in the break out world because we've always been in the trend following world.

I've never really used the ADx. How does that work? It looks interesting. There's a real temptation to do that. For me and I do this too, I freely admit I've got like a partition that I have and so everything in that experimental world is subject to totally different rules.

In other words, those things aren't allowed to go be traded in a standard account. Those things are going to end up in the Forex Tester world so there's going to be a lot of testing and things like that.

Oftentimes, that means creating different tools to make it easier in Forex Tester to test it and then you might move it at some stage over to a small account to test it out but it's never really allowed to see what I consider like my core strategies.

That is how I do it. I like the partition like that. I think that it's fun, it's creative. It can be a creative aspect of trading if that is what you enjoy to come up with new ideas and to test them. I like to keep them partitioned but your point is interesting.

You were saying, this part of what you've said was that being able to be exposed to all different types of approaches leads you to this kind of conclusion that it really doesn't matter and you end up back where you were anyway.

It's almost like a roundabout way of figuring out that, "Yeah, all girls around the world are essentially the same. There's not that much difference." You know what I mean? It sounds like that's what you're saying.

Darren: Yeah. You just kind of what you're doing is your removing that emotional changing of strategy where you've basically changed the entry system a million times and the candlestick pattern a million times and you realize that, that isn't going to make any difference.

When you have a losing week, you see it for what it is rather than, "Oh, it must be my entry signal. I need to improve my entry signal," and then getting drawn off down a dead end.

Those times where you're having a drawdown and in the past, you would've changed your system, you realize that that isn't the answer so you don't make those mistakes anymore. At least not as often.

Walter: Yeah. But, what will be the difference between that and just simply trading for a long time? Let's say that you traded for a long time, you've been trading for 20 years and really all you're really doing is you're just building experience.

You'll kind of know, "Oh, I don't really want to do that," or do you think that it must be through different systems and different sort of filters of seeing the market?

Darren: No. I think that if you've just started out trading and you traded the same system for five years and you made consistent gains, then that would also nullify that desire to change when you're having a bad period because you could base it on that long term experience.

I think you build a long term memory and then it's ingrained in you that what you've always done that works that there's really no need to change it. You would've been through those drawdowns.

But, I think it's unrealistic to expect human beings to do that as certainly based on statistics. I imagine as very few traders out there that have actually done that.

Walter: Yeah, I agree.

Darren: Maybe a few of the Turtles. I think they're pretty much, a lot of them went on and designed new systems but they were built basically on the same core principles.

Walter: Yeah. And, it's interesting I've seen one of them, at least one of the Turtles saying something on the Forum where he said, "Oh, most of the Turtles are trading better rules now."

They're not trading the Turtles' rules anymore. They're trading better rules than the original Turtle Rules, that sort of thing.

Darren: I think their real advantage to it -- it's kind of what we've talked about on the previous podcast -- is they had a risk manager if you like saying, "This is how you've got to trade." I think a lot of them were not focusing on making money from the trading strategy. They were looking to get a job with people like that.

They wanted to be employed so they'll know what they needed to do was just do what they're being told, the ones that were being successful. I think their focus was probably with the ones that were successful, was what made the difference there.

I think as retail traders, we don't really have that focus. We fall into trading. We hear someone talking about it on the pod or we see something on instagram and we just fall into it and we find our own way without actually having someone there to say, "Look,

this is the important thing. This is what you have to do.” And you’ve got something to follow.

Walter: Yeah, exactly. One thing about the Turtles that I find fascinating -- and I didn’t realize this until just a couple of years ago -- that they were actually looking for specific type of person who enjoyed playing like strategic games and things like that.

In other words, they’re looking at people that would make good traders because the Turtle experiment is often used as evidence that anyone can learn how to trade. Like you say, they basically have risk managers. They have bosses that were watching what they were doing and would give them more money if they follow the rules.

There’s one thing right there and the other thing is they didn’t just take anybody. They didn’t just randomly pick people and say, “Okay, you’re in.” They screen them and they were really looking for people that like to play games and kind of like professional gamblers or whatever who likes to go through the numbers and push through the game and know that in the end, his system is going to make money or whatever. That’s what they were looking for.

I know they say it’s evidence that anyone in trading can be taught and that I’m sure that’s true. But, I also think that they knew they wanted certain types of person and that was something that they paid attention to when they interviewed people. That is something I think is often forgotten.

Darren: Yeah. It was the right personality with the right guidance, basically. It was the combination of the two.

Walter: Yeah, exactly. It didn’t matter what, their experience didn’t matter. They were just trading the mechanical systems. They didn’t have to know anything about economics or anything like that. That’s what I found interesting that there were some screening going on there.

That’s something that for the listeners here, if you like playing games of strategy, if you like running through the numbers and things like that, I like playing games like Yahtzee. Yahtzee is like poker with dice, basically.

I still don’t think I necessarily understand poker but I’m really good at Yahtzee. My understanding is a lot of the full house and all these things that were in Yahtzee is basically like poker.

I guess I probably do know how to play poker but I have to have it a handful of dice to do it. Those sorts of things I think are interesting. Maybe a lot of the listeners listening to this has the kind of the way that you are.

You like playing games like that and that's a good sign. That probably means that you're in the right place.

Darren: Do you like playing games that appear a lot as well?

Walter: Not really. I feel like... Well, I do have a caveat but not really. What happens is I feel like I'm out of control, like I don't have any control. Whereas, I feel like I have more control when you're trading a technical chart or whatever.

I know we talked about this before. I mean, there is one thing that I will do and I know it has a negative expectancy. There's one system that I'll do if I'm at a casino or something, I'll play roulette.

I'll play roulette and I'll run a system where what I'll do is I'll bet on three rows of numbers. You can bet on row number 3, row number 2, or row number 1. I'll bet on the row that has the most red numbers on that row. And then, I'll bet on black.

What ends up happening is you'll actually play for a long time because you have a lot of the roulette wheel covered but it definitely has a negative expectancy. It will lose money but you just stop when you're heading, trying not to go back.

I guess that's the whole trick to gambling, isn't it? Stop player ahead. I remember last time my wife and I did something like that. We just look at each other and we said, "You know what? This is ridiculous. The money that we spent doing this was so silly. We should've just gone out and have a really nice dinner."

I typically don't do that. Do you like playing games of pure luck or pure chance?

Darren: Not really but I don't mind playing roulette as well because I just like the fact that like you say, there's no positive expectancy but you could get lucky and could play with the nice big win.

I think if I went and played roulette, I'd have a few spins and if I won, I'd definitely walk away. Other than that, I like horse racing. I like betting on horses.

Walter: Really? Wow!

Darren: Yeah. If I go to a casino, they nearly always got like a horse racing room as well and that's where you'll find me.

Walter: That's so funny. Do they have it in the pubs? In every pub it seems in Australia to have like a little gambling room and they have like horses on the tv and stuff like that. Do they have that over there?

Darren: No. But on the high street, there's betting shops on every high street particularly in the lower income areas. Gambling is still very popular in those areas.

Walter: How do you play roulette? Just out of curiosity, do you just bet on one number or something? Do you have a system?

Darren: Yeah. I mean, if I was going to bet, I'd go for 4 numbers or something. I'd go for something with -- if my luck is in then -- I'm going to get a big return but I wouldn't go for like a single number because my chance are out.

Walter: When you play, do you look at... Do you know they have the film that tells you all the last 20 numbers that have come up on their.. Usually, it's a digital thing. Do you look at that?

Darren: No. I think that's just a brilliant marketing, isn't it?

Walter: Yeah, sure is. It's exactly what it is. Gambler's fallacy on a big billboard. That's interesting. Cool, that's interesting! I didn't know you're a horse-betting man, Darren.

Darren: I just like the idea like you're saying that you could perhaps believe that you've got some sort of element of control in there with the picking of the horse.

Walter: Totally, yeah. That's funny. It's funny, we're funny creatures and it's certainly no different when we're trading the market.

Well, thanks for your time, Darren. I guess we'll see you next time.

Darren: Okay. Thanks, Walter. See you next week.

Walter: Okay, bye.