

2 TRADERS

[EP135: Trading DeLorean](#)

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Walter: You know, systems aren't nearly as important as understanding what you're doing with your trading. Like we're talking about, it's the Psychology of really understanding your psychology. Once you understand "You", in the end, most traders I think come to that conclusion. I really believe that.

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 the Two Traders Podcast. It's Walter here. Welcome, Darren!

Darren: Good morning, Walter.

Walter: So Darren, we have this idea. This topic is, we fire up the old DeLorean. What was that?

Darren: Back to the Future.

Walter: Yeah, back to the future. So you fire up and go back in time and as the sage trading adviser, you say, "Hey, this is what you really need to know about your trading". What would you go back in time and tell yourself, if you've had an opportunity?

Darren: It's a bit of a difficult one to answer really because my first instinct was the obvious stuff. And then I did sort of think a little bit more on it and I thought, I wonder whether it would be a good idea to go back and tell yourself anything.

A lot of the best things, best lessons in trading, all of the things that are most important to learn, are things that maybe can't be taught and have to be learned. Learned over a long period of time through a lot of losing and struggling and starting again.

I think some of those subtle lessons that you need to pull together are those personal skills. Even if someone tells you this is what you need to do, you have to go through the process of learning it yourself.

So that was one thought but if I did go back and I had to tell myself something, I'd probably suggest say, one book. Find the oldest technical analysis book that is still in print. Read it twice and then put it in a drawer. Forget about it because that's all you need to know about technical analysis and stop learning about it. Then, you've got all you need to know about technical analysis.

I don't think there's anything new now that wasn't known before. We are just essentially taking the simple core ideas and coming up with new ideas based on them. So if you understand those basic core ideas you really know everything you need to know about technical analysis.

Walter: Yeah.

Darren: I'd probably tell myself one quote a well. I think the only trading quote you really need to know - this is my personal opinion, is - "Cut your losers short and let your winners run." Jesse Livermore, I think that was?

Walter: I think so. I think many people have probably said it, yeah.

Darren: Yeah, I think it applies to all trading systems and that encompasses the idea behind trailing stops. The idea behind not holding on to winners or not holding on to losers or adding to losers. I think that's really important.

I would have taught myself one thing. To continue studying, it would be human behavior and Psychology. Why you make decisions and how you make decisions and how to improve that process. How to build strategies that deal with those issues as well.

Those would have been three simple lessons that I would have tried to teach myself. Whether I would've listened or not is another thing, because I probably wouldn't have changed my mind. Going back comes over a long period of time. Lessons were learned by losing and failing.

Walter: Yeah, that's a good point.

Darren: So, what about you?

Walter: Well, you've got me thinking now about this idea about learning your own lessons and that sort of thing. I suppose, it's interesting what you're saying about finding the oldest book on technical analysis and put it in a drawer.

A couple of years ago, there was a group of traders together. One of the traders, was quite good but he had this feeling that he needs to learn more about technical analysis. He said even though he had a system and everything he had it all lined up and everything was good. He said, "I just feel like, I'm missing out. I need to learn and get more well rounded."

You know what everyone said? All the more experienced traders in the room said, "What are you doing? No-No-No-No-No!" They all said, "Don't do that!" It was really interesting. It was fascinating actually to see all of the other traders, myself included say, "No! Don't do it." Don't you mess yourself up basically was the the main message and it kind of reminds me of what you've just said.

Darren: You also need to ask the question, "Why do you feel you need to know more technical analysis?" You always have to reflect on yourself and analyze why you've got questions in your head. Where they're coming from, what is the root cause of them.

Walter: Yeah, I remember when I was studying Religions in a University, it was my minor. I wanted to see how did all the religions deal with the big questions - Why are we here? And all that sort of thing. And I just thought it was really important to me to see all of the different perspectives. But, I can see in trading it would just be a real mess.

It's sort of like changing your sexual orientation or changing your political bent, or something like that. I can see where it would really mess you up, when it comes to trading. You almost need to adapt a certain way of seeing things and just stick to it. At least that's my feeling, anyway. I don't know that you get a lot out of exposing yourself to different ideas. I didn't know that there's a lot of value there.

Darren: Well, I think there are only a few simple big ideas. When you start to delve into them, you kind of realize that it's like the saying, "The early bird gets the worm." Implying that you need to be early. But, the early worm gets eaten so it depends where you're...

Walter: Where you are in the food chain.

Darren: Yeah! You might prefer like value entries. You might like buying stuff when it's really cheap. At the same time, you may prefer buying things when they're rising in value quickly. Buying with momentum. They're two opposite ideas but they're essentially the same thing.

When you can study those two core ideas and if you build a strategy with two different entries - One has a value entry and one is like a break out entry. You start to realize that there really isn't a great deal of difference in them. Then you can start to simplify the technical side of it. And realize that it is an important part of trading but it can only get you so far. When you know that, you realize that you don't have to keep learning about it.

Walter: Makes sense. I guess, if I have to tell myself one quote like you said -- you had the one quote -- I would say, "You don't glare on the sun." To be honest with you, I'm not really well-versed in all the Warren Buffett stuff. I haven't read his books or things like that. Just because I don't see him as a mentor or someone that I aspired to be because he does things different to what I would do or what I'm interested in doing.

But, I do believe that what he said, and Denis in France was the one who brought this to my attention. The quote was, Warren Buffett said something along the lines of "Markets are designed to pull profits, or pull money away from the impatient and give it away to the patient." I just thought, that was so true.

If you think of a lot of things in trading like, who are the impatient ones? The scalpers. Who are the impatient ones? The ones who are taking their profits too early. Who are the impatient ones? The ones that need to get in right now and don't want to wait for the signal to actually fire off. They get in 15 minutes early or whatever.

It just seem to fit so well. Even from a crowd psychology point-of-view: Who are the impatient ones? The ones that are following the crowd or following social proof, which is what everyone else is doing. "I got to get in now, I can't wait." That sort of thing. I just feel like it's such a great way of encapsulating what the markets do.

I know it's not perfect but it just seems to make such great sense in so many different ways. I'm sure that there are places where it doesn't fit, but this idea of impatient people throwing their money. You know, good money after bad. To me, it just really fits.

Also, I've noticed in my trading, if I miss a signal. Let's say, that I want to trade a H4 chart. For whatever reason I get home late or something, I check the charts and that H4 signals are already printed.

Often times, not taking the signal on the absolute close of the candle when I should have taken it, and instead having a little bit more data there on the chart, will often help me: One, to avoid a bad trade. Or two, get in even better on the trade, on the signal.

I'm a big fan of letting the market give you a little bit more of information and not feeling like you have to go in right now. For me, patience works that way. I think that patience-thing is a big deal.

You brought us some good points about learning your own lessons. I suppose, the best lessons - I often wonder is it possible that the lesson where you lost \$5000, you know you learn more from that, than the one where you lost \$50? I wonder if that works. Does the math work on that.

Because it could come down to, it could depend on what percentage, how much is that means to you. When you lose the \$5000 that might not mean nearly as much as when you lost the \$50, 15 years prior. It could be what your situation is.

I just tend to think that there are certain situations where the mistakes that you made, is kind of easy to burn those into your arsenal, into your tool chest, into you learning. And then in other instances, it's easier for you to gloss over those and just say, "You know what? That was because of this and that." And not really attribute it to the right reason why you made that mistake. Does that make sense?

Darren: Yeah, it's almost like we don't really learn the lesson until it gets really painful. I suppose that could be true. But I think, small failures build up over time as well. I kind of like that rather than one massive crash if you've had a few years of repeating the same small mistake. It's like the difference between the long term memory and the really sort of shocking memory. I think they are both easier to learn from.

Walter: Definitely. I always think of the stories of the traders that you read and they talk about the one big mistake or the one lesson that they learned when they took on too much risk or whatever they did. It's so interesting to me. And then you see people like Jesse Livermore, who has never seem to learn from their mistakes. They keep making the same mistakes over and over again.

Darren: Yeah and he knew he was making those mistakes as well but continue to repeat them.

Walter: Would you say that he wasn't cut out for trading? I mean, people hold him up as this great trader but in the end I don't know if you can really say that. This great trader in the end just kind of did himself in, quite literally because of where he was at. It's just not a nice thing.

Darren: I think, it's probably psychology and personality that he had a problem with. But I think he could have put systems into place to counteract that. The secret is knowing what you don't know and knowing what your mistakes are. And then, being able to design a system that incorporates that and stops it happening. I think that's the real secret.

I think when get to have those elements right together, you're in a much better place going forward. You're increasing your probabilities of being profitable. I think perhaps maybe the traders who do really become consistent and profitable, they have either consciously or subconsciously built a system that deals with their failings.

Walter: Yes. I think that's the key. I think the traders who do well know how to deal with failure, basically. When you're talking about these systems, do you think that it's easier if you have somebody else helping you with that? Or do you think it's okay like some traders can just do it on their own?

Darren: I think you need a checklist. I think, just sitting on your own and saying, "I'm smart enough to deal with this", is probably the least effective way. There's two proven good ways of dealing with it or two tested ways of showing to give good results. Writing stuff down, some sort of journaling and the other way is, like you say, having somebody that you are accountable to, who is going to question what you're doing.

Like on trading floors they've found that, if they have good managers who speak to the traders and tap into their emotions and get them to express their emotions. Which is

similar to writing stuff down. That's an expression of emotion. Those are proven and tested effective ways of doing it. That can happen in many ways.

It can be just running a journal on a thread where you just post every trade. You don't need to discuss what's necessarily is going on there but you've got some sort of transfer of what's happening inside you onto some sort of written journal.

Walter: Yeah, then when you go back on that first of all, if you do that on a forum or whatever, it's kind of good because you're almost committed to it. Like you've got to keep going. Once it's going, it's going. Then you go back and you learn so much.

When you go back and read it, "Wow, I can't believe." It's a lot like journaling, but you are a little bit more exposed. And you can leverage the experience of others, if there are people that you trust, that you respect, they offer some advice. Sometimes you can incorporate that as well.

Darren: Definitely. I will often get to the end of the week and feel inside myself that I've traded and executed fairly well. My systems pretty systematic. There's not really much leeway in what I need to do and when. But then, just going back and looking at the individual trades that I've posted, I kind of realized, I actually made a few mistakes there. Common mistakes which you shouldn't be making anymore. So that's a really good way of dealing with it.

Walter: Anything else that you would like to say to your younger self about trading? I guess I would say, patience is the big thing. The other thing would be, systems aren't nearly as important as understanding with what you're doing with your trading. Like we're talking about the Psychology of, really understanding "your psychology". Once you understand You. In the end, most traders I think come to that conclusion. I really believe that. Most people would say, "That's it. That's me." It's self reflection, it's understanding your issues that's what it comes down to.

Darren: Yeah. If you could have gone back and pushed yourself in that sort of direction, I think that would have been really helpful. The only question that remains in my mind is whether you can learn that quickly by somebody telling you or whether you need this kind of long term memory of failing, when you're going against those principles.

Because I do remember back when I started trading, there was a lot of stuff about Psychology. And I just made a mental note, "Yes, Psychology is important". I didn't really do anything more about it. I'll just file it out at the back of my head and continue doing what I'm doing. Even when you can see in front of your eyes that your back testing ideas, you're working out what makes them tick and then you're doing the opposite in your life trading.

Even then, it takes a long time for that to sink in. But you know, the thing that I never did was really have somebody to be accountable to who would say, "Look, you're lying to yourself here. You're saying you are going to do this but it's not what you're doing. What systems are you going to put into place to stop that?" For me, it was just a case of getting to the end of the line and thinking, "I can't do this anymore. I've got to make some radical changes".

Walter: The traders when they leave the bank desk they always think that they're going to do well. They're going to trade their own money and all these so often, they just fall apart because they don't have that structure in place.

You were saying before about, how do you know if you would just take a lesson that someone gives you versus having to learn it repeatedly or picking up that experience over time. I feel like it depends on the person. I feel like I'm a pretty good student. If I had made the decision earlier on to seek someone out and just really listen to what they said, just let them mentor me then, it probably would have shortcut for me.

I don't know if that is for everyone. I don't think that's necessary the norm. I just think that I've kind of trained myself to be a student. I'm good at copying stuff. Which is basically what our whole Western school systems are like. Copy stuff and then spit it back out.

It's ridiculous but those are the ones that are rewarded. I think some people wouldn't do that well. I know people like that. They would be like, "Ah that's B.S. I'm not going to do what he says."

In fact, I did that with my own friend, who got me into trading. He was a good trader. I just said "What you're doing is crazy. There's no way I would ever trade the M5 chart like you do." I said, "No way!" I just knew right away that, that was not what I wanted to do. So I guess, it depends on getting the right mentor, the right approach. I suppose.

Darren: The point that you brought up about making big mistakes, there's a book that's just about to come out called **Big Mistakes: The Best Investors and Their Worst Investments** on this topic. Michael Batnick I think, is the author. That's on that theme as well.

Walter: That's cool.

Darren: Thankfully, I've never made big mistakes. Or maybe I have.

Walter: **Big Mistakes**, you said? I'll have to check that out. **We'll put that in the show notes** for everyone so you can find that one if you're interested.

Thanks so much for your time Darren, I really appreciate it. I guess, we'll see you in the next episode.

Darren: Okay, Walter. I will see you then.

Walter: Thanks.