

2 TRADERS

[EP14: Your Trading Beliefs](#)

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Walter: What you do as a trader in setting up your trading and your rules is designed to keep you from blowing up your account, to keep you from doing something crazy, to keep you from doing too much too quickly.

Announcer: Two traders, Darren and Walter, pull back the curtain on profitable trading systems, consistent money management, and profitable psychological triggers. Welcome to the 2Traders podcast.

Walter: In this week's episode of the podcast, Darren and I look at beliefs. How do your beliefs determine your trading outcomes? Is it that you're actually believing in the wrong thing, or is your focus in the wrong spot? We'll also look at how the beliefs of others around you may significantly affect your trading outcomes. This may actually blow you away. It certainly blew me away and we look forward to sharing this with you and more in today's episode of the 2Traders podcast. Hey, Darren. Welcome back to the podcast and I hear things are going well in your corner of the universe. How are things going?

Darren: Yeah, yeah. Really good. Great week trading. I've been down in Spain a little bit. Everything's really positive at the moment.

Walter: Brilliant, brilliant. What is this about beliefs? We were talking a little bit about beliefs I think last time and I want to dive into this in today's episode. Can you tell me more about how you've linked beliefs up to trading?

Darren: We've got really contrarian views on trading and beliefs, and that used to bother me a little bit. You feel that you want your beliefs to fit in with other people's, really. You want to be part of the crowd, especially if they're successful traders. If your ideas go against that, that poses the question, "Am I just deluding myself here that I've got something good in the way I trade?" For me, the problem I have with trading and beliefs is that people want to believe there's like ... I watched this great talk about the god complex and we have this thing that if there's a complex problem, which I supposed you could say trading is a complex problem, the idea is that you have to have some sort of god-like figure expert for you to be able to do it successfully.

That pervades all of trading when it comes to the technical elements I should use. Where I place my stop, the exit. We want like a definitive book of rules that is the right answer to all of those elements in any scenario. We get lost down that wormhole of trying to do that with our trading. I think that in fact the opposite is true. All of those fine details really don't make any difference to the outcome of your trading and you can have a much more free-minded approach to it. As an example, usually when I take an entry into a trade, I'll wait for a bar to close, bullish or bearish, and then I'll place my entry a few pips over the high or the low. I will forever get questions about how many pips I'm placing over the high and the low. Which is fair enough if you're trying to learn someone's strategy.

It's fair enough to want those fine details, but it's that belief system that's running in the background that says that that's important. If I put it one pip over the high or three pips, it's going to make a distinctive difference to the outcome of trading. We have that pin point accuracy we want on all of the elements. Whereas me myself, I don't know how many pips it is because I just drag it over the top and let go. Whatever it is, I leave a bit of space, it looks good to me. I just think this kind of believe that there is a definitive answer to all of these elements is quite a crippling one. It might be a reason why so many people struggle with trading.

Walter: Yeah, I would agree, but probably for different reasons. If you're talking about a trading system and the rules and the specifics about it like, "Okay, I'm going to place my order." For example, I usually place my order six or seven pips above the high of the candle or six or seven pips below. Although, if it's a wild pair like the Pound, Aussie, maybe it's ten or twelve pips. There's some wiggle room there, but I don't think that it's conducive to long-term success for any trader to simply, "Oh, this is what Darren does and Darren seems like a hot shit trader to me, so I'm just going to do what he does." You know what I mean?

I don't think that's a ... I think that's a danger. I think if I look back at the traders that I know who have gone through ... Typically what happens with successful traders is I never hear from them again. Typically what happens is they'll go through the course, they'll ask me some questions, we'll be in contact for about a year or two, and then they're gone. Then I'm lucky if they come back three or four years later and say, "Hey, look. I'm working at a private fund now." Two traders have come to me and said, "Hey, look. I'm the number one signals trader on this website."

It's one of those situations where, as a mentor, I believe my job is to simply point out to you that you need to find out what your beliefs are. Most people don't know what they are when they trade. Then match them up to your trading system. I guess what I'm saying is, if you take someone else's beliefs and translate that into a trading system and use it, you're in the same position that you've always been in that you're never going to end up with a system that you trade long-term. I think you're a perfect example of that. You have learned things from different people along the way, but I don't think that you would say that what you do is cookie cutter, exactly what you've pulled from someone else. Would you agree?

Darren: Yeah, and I think now those elements have put me into ... The stuff I learned from other traders made me use trial and error. Then from that, I've learned what I really believe in and then developed my own system from that. It's been learning as I go along, so I'll try various ... They'll suggest a particular entry method. I'll try that and whilst I'm doing it I'll see another sort of variation that I can feel more comfortable with and I'll try that. It'll evolve into my own entry technique.

Walter: Right. Okay, when you say trial and error, is trial and error to determine your beliefs or is trial and error to determine what works for you, like the mechanics of the trading?

Darren: I think to develop my beliefs, I think you're right there.

Walter: Yeah, I think that's true. I think that's essentially what we do is we ... As new traders, it's like you go to the buffet. I don't know, do they have buffets in the UK or is that just an American thing?

Darren: We do, yeah. We're quite posh over here.

Walter: Oh, okay. Well, there you go. You know, you go to the buffet and you pick and choose and you say, "Oh, I'll have a bit of that, try a bit of that. I don't like that." You get to the point where you know what works for you, what you like to taste, and I think trading's a bit of the same way in the beginning where a lot of that is learning. One thing that new traders will say is something like, "Oh, I can't get enough of trading. I just read trading books and I just love trading. I just want to do it. I can't wait to quit my job and become a full-time trader."

Then what you'll hear from traders who actually go through that process and go pro is they'll say something like, "God, this is boring." It's so true! I tell that to people. I say, "Look, you want to get to the point where it's boring. You don't want to get to the point where you're devouring trading books and forums and things like that every single day. What you want to do is get to the point where it's boring because that means you're basically settling into trading your beliefs. You've identified who you are as a trader and how you're going to trade." That's when it becomes boring.

If you want it to become exciting, then move that into the testing realm. That's where you test new ideas and see if they stick. That's fun, that can be exciting, but your actual ins and outs, everyday stuff, is if you're doing what you believe and you've been doing it long-term and your successful, it shouldn't really be exciting because exciting is what happens when you put a lot of money on a number on the roulette table in Vegas. That's exciting. The reason it's exciting is because you don't know what's going to happen. With trading, although you don't know what's going to happen on any given trade, you know overall what's most likely to happen because you've done it for a while. You've done your testing and you've got your numbers. To me, I think we've got the same point of view here.

However, I would ask this, Darren, about ... Because it sounds like what you're saying is some of this can be restrictive. Some of these having these rules and these strategies for traders can be restrictive. I don't think that's necessarily a bad thing because I think, not all, but the majority of traders come in into a situation where they

need to have rules to constrain them from going hog wild and taking on too much risk or taking on too many trades or just doing silly things. The banks are set up that way, too. If you look at how the banks and the funds are set up, they're all set up so that there is definitely somebody watching you. You know what I mean?

Darren: Yeah. A bit of the danger with it is that people think those elements of the strategy are somehow ... they will help you control the market. Whereas to reality is they should be there to control your actions and your reactions to the market. Like you say, in a bank, I don't know how it's set up, but whoever is deciding how his group of traders is trading will have rules in place to make sure that they don't lose all the money, basically, as much as ...

Walter: Yeah, they all have a risk amount. Exactly right. They all have a number.

Darren: I think the danger is that people are looking at their strategy as a way of removing the uncertainty from the market. That will always remain. The majority of my trading strategy rules are there just to help me deal with that uncertainty and trade in a structured way. When things are going really bad, which they will sometimes, the market will just be particularly unfavorable for your particular strategy that there's something in place there that means that it can't get complete out of control. At the same time, when the market is behaving beautifully and in my favor, then I will make the most of that opportunity. That's why they're there. They're not there because they have any particular ability to predict what's going to happen next.

Walter: Yeah, right. The rules are designed to manage the trader and not a crystal ball for where the market's going to go.

Darren: Yeah.

Walter: That makes sense. Although, I do believe that you can see on the charts where people get a little bit crazy. Right? I would generally characterize my trading as swing trading, and so what I would say is that if you'll look closely at the charts, you can see things like irrational exuberance and fear and destruction. You can see these things. You can also see the people getting bored, the market getting bored. I believe you can see that on the charts. Some people, maybe you, or one of those people don't necessarily agree with that and say that and say that, "No, that's all a bunch of hogwash." You want to feel like you have control, but really you don't have control. You don't have that ability to do that with the charts.

We would certainly both agree in that what you do as a trader in setting up your trading system and your rules is designed to keep you from blowing up your account, to keep you from doing something crazy, to keep you from doing too much too quickly. That's really the most important thing because if traders can't write down what their rules are in terms of what do you do a particular draw down, what do you

do with a particular signal? What do you do if the trade goes against you? You can write all that stuff down that you don't have the trading system. Right? You're trading off your gut. That's where you're in trouble.

Darren: I think also is an important part with the belief and strategy together is that the opposite just as likely to be true. Your belief is that you can use a support and resistance and technicals and reading of the market to trade successfully. That doesn't mean that not using any of those elements is necessarily not going to work. I see that over and over again that people have this idea that their particular method is the way and everything else can't possibly work because theirs is the way. I think that mindset is just ... The idea that that's true is just blows my mind, really.

Walter: Absolutely. Absolutely. It's sort of like someone saying, "Well, no. If you really want to get to heaven, you got to follow my religion."

Darren: Yeah.

Walter: It's the exact same thing.

Darren: It's the same mindset. I know we mentioned the ... What are those trading books? Market Wizards. You read those books and they all have very diverse techniques for trading and they're not all trading RSI and they're not all trend traders and they're not all support and resistance traders. Everyone is finding their own way to profit from the opportunity. The opportunity exists in the fact that price moves up and down. If price went sideways all the time, then there would be no opportunity there. If you break it down to that basic logic that price moves up and down and you just need to profit from that opportunity.

Walter: Absolutely. What I wanted to do is bring up this study that I learned about, which I think is just fascinating. It deals with this idea of beliefs. There was a study where they were looking at cancer patients and their doctors. What they did was they gave a subliminal track. This had sort of healing ideas in it, healing thoughts and statements. They gave the subliminal tracks to the cancer patients. Full disclosure, so I use things like this because I believe in them strongly. I believe that it's not only important to know where your beliefs are coming from and how you found yourself into certain cycles, but I also believe that you should overwrite those things with something better. One efficient way to do that is to use subliminals.

Anyway, that's a totally different topic. This is what happened. They gave these guys these CDs, and they listened to the CDs. Then what they wanted to find out were basically four things. They wanted to find out what the patient's attitudes toward their disease because they all have cancer, and they all have "terminal cancer." They've all been diagnosed with terminal cancer. We're sorry you have cancer, you're going to die. They wanted to know what the patient's attitude toward their cancer was before they

used the CD, then they wanted to know what the attitude toward the disease after they used the CD for several weeks. They also wanted to see what the patient's quality of life was. In other words, were they still living and what was their life like. Then they wanted to know how the physician felt about ... What did the physician believe about the patient's belief affecting their health.

In other words, what did the physician think about this? What did the doctor think about this whole experiment? What I'd like to ask you, Darren, because I think this is a really common thing is that people say, "Well, of course. What happened was the blanks who did what ..." You know. Who in this case, what's the most important thing here that would determine whether or not these people lived? What would you have to say? What would be your guess?

Darren: Your gut instinct would be to say that the treatment they receive. Medicine would have the most effect.

Walter: Right. I mean, a 38% of these people were still lived after this even though they were diagnosed with terminal cancer. You're saying treatment, and that was one thing that they looked at, but they found that it didn't really matter what kind of treatment, whether they had radiation or chemo or whatever. That stuff didn't matter, the treatment didn't matter in terms of who lived and who didn't and their quality of life.

Darren: Are you going to tell me then that the people that were receiving these positive subliminal messages had a better survival rate than the people that weren't?

Walter: Yeah, they did. They did, that's true, but that's not the kicker. The kicker is that most people would say, "Well, the most important thing here is whether the patient believes that these subliminal things are going to work. In fact, that wasn't what they found. There was an effect there, but what they found was the most important thing was whether or not their doctor believed that these subliminal CDs were going to work. It doesn't matter what you think when you go through something like this, it matters what your doctor thinks. It's kind of amazing, isn't it, when you think about it because when they looked at those patients who had physicians who believed, that the doctor believe that this subliminal thing might do something. In other words, your beliefs about your cancer can help your survival. If the doctor believed it, 46% of those patients survived. Right?

Darren: I mean, it's just like the god complex and because they see the doctor as being the one that can cure them, if he's being positive about their chances and their treatment, then that has more of an effect on them. Is that what you're saying?

Walter: Yeah. What I was saying is that the doctor's in the position of authority, whether it's subconsciously transmitted or not. In other words, the doctor doesn't necessarily have to say anything to the patient, that wasn't part of this. The question was what does

the doctor believe. Right? If the doctor believes that in some way your beliefs about your cancer can improve your survival rate, then 46% of those patients survived. If the doctor believes that your mind is strongly related to your survival rate, that goes up to 60% of their patients survive. If both the doctor believes that your mind plays a key role in healing and the patient also believes this to be true, 100% of those patients survived their terminal cancer diagnosis.

I guess what this is saying is exactly what you brought up earlier. What reminded me of this was the idea that if someone who's in a position of authority, and he doesn't have actually event ell you this. You don't have to know this consciously, but if this person in authority believes that you can do what you want to do, then maybe you can do it. I guess one of the things it reminds me of is in the forum we had people talking about, "I went to my accountant and my accountant said don't trade anymore. Everyone loses." Right? Okay. I've seen all their records. That sort of thing.

It reminded me of that when someone said, "Hey guys, what do you think about this? My accountant is warning me off this trading thing because the accountant's seen all their other clients and they're all losing money." It's kind of an interesting dynamic there, too, isn't it, where you have to defer to your accountant. I mean, your accountant's seen all these records, seen what everyone else is doing who's getting into this trading game. Why wouldn't your accountant have your best interest at heart when he says, "Hey man, you should really step aside? This is not a game you want to be in."

What about your wife or your husband who thinks, "Oh, you're still doing that trading thing? Are you ever going to make it work?" These sorts of things were sort of ... These pressures that you get that might be subtle but could actually be much stronger and determine much more of our overall outcome and profitability as a trader than you might otherwise consider. I just thought it was something worth bringing up since we were talking about belief and authority today. To me, it was just a fascinating result because it really goes against what most ... Most people would say, "Okay, fair enough. If you believe that you can heal yourself with laughter and watch some Seinfeld episodes and you've got cancer, then maybe that's true." Dr. Norman's cousin sort of thing. Norman cousins were sort of famous for that. To say that the doctor is really the key element here, that's another step beyond.

Darren: Yeah. That amazes me when things like terminal illnesses are affected by the mind because we are conditioned to believe in medicine, aren't we? If there is an illness, then it's only really medicine that's going to make any difference to us. We're pretty firmly routed in that idea, really. It fascinates me when it comes down to the mind.

Walter: Absolutely, yeah. I guess it's just something to think about. If you're listening to this and you're thinking, "Well, what can I do about this?" Just consider that you have relationships here and some of these people may be watching your trading like your

husband or your wife and they're wondering whether or not you're going to make it. Maybe you're not profitable at the moment or maybe your accountant's telling you, "Look, you got to give this up." These are the sorts of things that we have to consider because it's not just you. You've got this ecology of influence. All of these things are around you. It's not only your beliefs but the beliefs of others and they could be affecting what your bottom line is. It's just something to ...

You hear the old idea of, you know, "It's time to cut loose some friends," or whatever. Those people who say, "Only looking forward. I'm going to cut loose all these friends that are dragging me down," or whatever. That's the sort of thing here that's going on when you talk about how others can actually influence your outcomes.

Darren: Yeah, maybe that's why I'm not ... Maybe that's why I'm becoming such a loner, because I can't find anyone to agree with my sort of mindset on things.

Walter: Also, if you believe that you're going to die in a steely ball of fire sometime on your motorcycle, you know what I mean, it's like a self-fulfilling prophecy or something like that. I guess one of the take home messages here from me, Darren, is are we relying totally on the opinion of others in authority like professionals that this is really what's going to happen based on what they tell us? Does the data suggest, the study suggest something like that there should be more of a cooperation between the person in authority, the doctor and the patient, rather than letting the doctor direct things here. Because what could be happening here when people get their diagnosis is that some people are getting a diagnosis of "you've get terminal cancer, but there's hope." Because those are the people that are fortunate enough to have a doctor that believes in the power of the mind and healing.

Then other people are getting a different diagnosis, which is, "I'm sorry, you've got terminal cancer and no hope." It's like there's really two settled diagnoses here and it depends on which doctor you have what it is. These are the sorts of things that I'd like for people to consider who are listening to this because you could just write it off and say, "Okay, this is just a fluke finding. Maybe this is just the placebo effect. Right? Maybe that's all it is it's working in that sort of thing. I think there's something more here. I think there's a little bit more underlying this, which is something that perhaps we should consider as traders is what is going on. What are the influences that are affecting our trading and basically our bottom line results?

Darren: Yeah. It's really fascinating stuff, Walter. I'm with you a hundred percent. When it comes to trading, we really got to consider our beliefs, the people we listen to, and the outside, the people around us when we're trading and how they might be affecting our results as well.

Walter: Yeah. One last thing that I just thought of. There was a guy basically owns a very, very famous forex brokerage. He's part owner and he had this belief, and he also runs a

private fund, and he has this belief that most traders lose ... Obviously he knows this because he sees the accounts. Most traders lose, most traders risk too much, and when most traders get into a draw down it really goes bad. That's his basic belief and you should only really shoot to make maybe a half a percent a month or something like that. That's his whole thing. He overheard a discussion where I was with a group of traders and we were talking about exactly what you and I have been talking about today, about beliefs and how your beliefs might determine what happens.

It was so interesting to me because he, at the end of it was like this week long thing, at the end of it, he approached me and he said, "You know, I'd really like to know more about this psychology stuff that you were talking about." It actually blew me away because to me he was so entrenched in his beliefs that traders over-leverage, traders get into big trouble when they're in a draw down, and most traders should trade for a much lower leverage than they currently do. Those were his beliefs. It blew me away that he would be interested in that, but in a way it was kind of an admission, wasn't it, that perhaps his beliefs, which we all knew what they were, were actually directing his own results for his own fund. Maybe if his beliefs were shifted a bit, it would change his results.

That's how I read into it, maybe I'm wrong, but that's how I viewed it and I thought that it was interesting that even someone who's hyper-conservative like that may come to the same conclusion which is, "Okay, there might be something here in terms of beliefs and how your beliefs may be something that you might want to work on a little bit." I thought that was interesting.

Darren: Okay. Well, it's been great to catch with you again after we've had a little bit of break from the podcast. Next week I'd really like to talk about this idea of how our visual signals can lead us astray and we rely on this pattern recognition way too much. I know that's something you've got some good ideas on, so next week let's do that.

Walter: Sounds good. We'll take a look at that next week. Take care. See you later, Darren. Bye.

Darren: Okay. Cheers, Walter.