

2 TRADERS

[EP79: "No-Brainer" Theory](#)

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Walter: There is some sort of ceiling, there is some sort of reason why when it comes down to it. When it is real money, the traders have some sort of upper limit...

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. I am Walter. I've got Darren on the line here. Hello, Darren.

Darren: Good evening, Walter.

Walter: Darren, the idea for this podcast is: why is it that forex trading is so easy to get into. I have this theory and I would love to get your thoughts on this. The theory goes something like this: it is really easy for you to make it work.

If there is some sort of business or idea, something that you can do with anyone could pick up and "Yup! It is going to work out." It is going to make money, it is going to be a success then, usually, what happens is the government or the powers that be or whatever, the trade unions or the organizations, the professional association, they make it difficult for you to get in.

You've got to jump through hoops, you've got to put some money up, you've got to get some licensing or whatever, you've got to get some certifications, anything that is a good business.

Usually, there's a lot that goes into it to make it difficult so that not anyone can do that. There is an old story in the Island of Nauru. I do not think they do this anymore but in the Island of Nauru, there's an island that was just mined.

It's pack-marked, just completely it looks like the moon. They've just taken out these big chunks of whatever they were mining over there -- phosphorous, I think it was. Once that was done, they became like a financial center where anyone could go over there and start their own bank.

Anyone could have a bank which was unique in the world because in most places, it is really difficult to start a bank. It is not something that anyone could just decide "Yeah, tomorrow I am going to start my own bank" because banking is one of those things that is, generally, it's pretty easy business.

You loan money out and you charge a higher interest rate and then you take money in and you pay a very low interest rate and you make money on the difference. It is like being a broker.

If you are a broker, you have a sell price and you have a buy price. In theory, you make the difference between those two. It's a no-brainer business. Those are banks, brokerage, firms that they are not really easy to get into.

It cost a lot of money, you've got to do a lot, goes through a long licensing, jumps through a lot of hoops. Whereas, forex trading or trading in general, that is a pretty easy thing to get into.

Anyone can basically go online, type in your credit card, answer a few questions, send it through and you've got an account. You are ready to go and you are trading. My thought here, Darren, is that the really easy things to get into, like trading, the reason why they are so easy is because most people are unable to make it work for them.

I'd love to get your thoughts on this idea. First of all, do you agree that the really no-brainer businesses, that easy businesses to make money in are difficult to get into and then the easy things such as trading, one of the reasons why it is so easy to get into is because most people find it very difficult to do this?

Darren: Yeah, definitely. It should be like a warning sign, shouldn't they? It is very easy to start a business with very little funds and very little training then making a profit from that business is going to be notoriously hard.

It is like the casino, they are making it very easy for you. Last time I flew to San Francisco, when you get off the airport there, they have coaches from their casinos in Nevada waiting there to take you out to the Ski resorts.

If you get on a particular casino bus then they'll give you \$50 or something and a free bus but you have to get off at the casino and then go inside to get the \$50. Of course, you'll get the \$50 and you turn around then you'll see all the machines.

You'll instantly go and spend the \$50 and then more on top than you would have paid just for your coach in the first place. They make it easier and they are constantly making it easier.

When the internet came along, that was the moment that they really could make it easy for people to get into trading. It does highlight the fact that it is going to be very hard to walk out of a profit. How many people walked out of the casino with more money than when they walked in with?

Walter: I heard once that in Vegas, I don't know, it was probably more than it was now than \$300. Every time somebody walks in the door in the casino, it was worth \$300 to them. This might have been like 15 years ago and it is probably different now.

I find it fascinating because if that was true, those casinos that give you free shuttle, it cost them \$50 to get you to the casino and then it cost them another \$20 in the shuttle cost or whatever. They're still up to \$230, aren't they?

Darren: Yeah.

Walter: Yeah, it is a no-brainer. Alright, so forex trading is really, really easy to get into. We know that the lifeblood for the retail forex broker is new account. They have to have new accounts coming in because they are burning through accounts.

Traders are quitting and blowing up their accounts, do not have enough money in their accounts anymore or have negative balance or whatever that is. They are always trying to get more and more people in.

What's fascinating is that traders can make money doing this and yet it is one of those things where it's almost seems like too easy, doesn't it? I guess that is your point about the casino, isn't it? If it seems too easy, if it seems like a no-brainer, it seems like "Yup, you should do this", then that is a sign that there's more to it than that.

Darren: Yeah. And, usually, when you realize that it is harder than you first imagined, you've already lost more money than you intended to lose anyway. Now, I see more and more young kids who maybe five, ten years ago would be playing computer games.

Now, they are playing online poker and opening trading accounts. I just think that the markets are going to make the access easier and easier although some places are having a bit of a backlash. Aren't they?

I think it was Holland or Belgium, start to clamp down on retail trading. Did you hear about that?

Walter: No, I haven't heard about that.

Darren: I think they banned retail brokers or something. I am not sure if it is Belgium or holland. I suppose because, like gambling, there's a lot of people losing more money than they can afford to lose. It's what you need now, you need a bank account and a \$100 to \$300 to get going.

Walter: That is fascinating. The interesting thing here about this question why is it so easy to get into is that, on the other side of that, those brokers it is obviously really difficult for them to get into the business, isn't it?

Like, obviously in Holland or Belgium or whatever that happened, it just shows the other side of the coin, isn't it? It is so difficult for them to get into the business now, isn't it? I mean, it is literally like they cannot do it but it is just an easy business to make money doing.

Darren: Yeah. Wouldn't it something happened with the whole prop trading thing after the last crash where all the banks closed down their prop trading desks because of the new law that came in or something.

Have they all shifted their focus to retail rather than propriety? I mean, did the banks own all of these brokers? I do not know who is backing them all.

Walter: Yeah. Right, interesting. I have no idea. Prop trading is another one because the idea is "Okay, why don't I go ahead and trade someone else's money and share the profit?" That seems like a really easy thing to do.

"You are going to give me money and then you are going to give me a chunk of a profits that I make on your money." Sounds like a no-brainer, right?

Darren: Yeah, sounds like very easy.

Walter: Sounds too easy, yeah. Exactly! And sometimes they'll say "You have to pay, you have to open up your account first to show us that you can do it" or, "You need to pay us so that we can teach you how to trade".

Others say "Yeah, you can use our money but you have to trade demo for a while" or "You have to stick to our rules, you have to take so many trades a month or a week, and you cannot hold them over the weekend" and all these. All the strings start to come out later on, don't they?

Darren: Yeah. It is this notion, isn't it? When you are trading a small account that somehow your trading performance is not as good as it would be if you had a decent size to trade then all of a sudden, your trading would seem to be more disciplined and accurate.

I can tell from my bad experiences myself, it is not the case. In fact, increasing the size you trade, for me personally, make my discipline and decisions even worse. It is like that argument about demo does not count.

Any live trading counts because the emotions are different. It is rubbish. If you are playing the game of checkers for fun with your mate, you want to win and the emotions of winning and losing are just the same.

Money cannot compound it. I do remember trading my demo account and I felt just as bad if I was trading badly then as I do trading badly now. If you do see them as being distinctly different, then you probably haven't got a really good trading mindset because you should really be focusing on those short term results anyway whether there is money involved or not.

Walter: Yeah, absolutely. That reminds me of when you are talking about demo is... Have you ever looked at those contest, Darren? The brokers have those contest and it says "Here's the live account leaderboard and here's demo account leaderboard." Have you seen those?

Darren: No.

Walter: It is amazing because you have the same broker, it is the same leverage, the same every thing, presumably the same quotes. You can argue that on the demo versus the live accounts and yet the leaderboards are completely different.

You look at the demo account and the guy at the number one is making 15,783% gain in the last week. Go over the live account and the number one guy has only made a 150%. How is that possible?

It is so interesting to me that the guy on demo, the people on demo, are taking completely different risks. They have a totally different approach. I mean, that is the only way I can explain it. Why wouldn't they be the same?

You know what I mean? I agree with you. I agree with what you were saying. When you are trading on demo, you still want to win, you still hurt, you still keep track of it and all that.

Yet, there's some sort of ceiling, there's some sort of reasons why when it comes down to it. When it's real money, the traders have some sort of upper limit and there's different upper limit when it is a demo account.

It is just fascinating to me, the whole psychology because in theory, you should look at both leaderboards and there should be no difference, really. In theory, you look at both thing and go "Yeah, they are roughly the same. The top guy on the demo account will be about the same as the top guy with the live account".

Yet, it's not the case and it's never the same. I've never seen that where they are even comparable at all. It is amazing.

Darren: I think there is -- on the demo side, as well -- there is a quote of Martingale Grid type robots that have amazing returns but then eventually blow up. There's a lot of those

traders out there who have these insane returns in short periods of time and then use that as a base to try and raise the funds to trade it live but, essentially, they usually blow up beforehand.

There's a forex site that I go where this happened recently where a guy seemingly had perfect results over a long period of time. I think it's sort of one or two years, he had quite a large drawdown that should've raised him an alarm bell.

This guy was taken on by this small fund and given preferably decent size account to trade and he was amazing for a while and then eventually, blew up and lost most of the money from the account.

You have to watch out for that. You need to know that that is going on in the background. Again, this is one of those things that make it seem easy to get into and make money. There's a lot of these sites now where you can look at other people's systems and their equity curves.

If you really do not know what you are looking for, they can appear to be the perfect systems but they have a limited shelf life and will eventually blow up.

Walter: Yeah, isn't that the truth? I think you can see it in the equity curve. I believe that you could see it in the equity curve. If the equity curve looks like a stairs, it goes up and flat lines, it goes down and it goes up. If it looks like stairs, that is pretty good.

If it is a 45 degree angle, you just haven't hit the one and only drawdown yet... You know what I mean?

Darren: Yeah. That's like a little bit too perfect. It raises your -- especially if they're hiding their entries and stop placement and things like that.

Walter: Yeah, totally. That is right.

Darren: In the future, there's a grave to trading has happened to retail side. Do you think this is just going to keep going bigger and bigger?

Walter: I do not know. I think what you are talking about in Belgium and obviously what has happened in the States for the last ten years, I guess, you think about it like with the online gambling or whatever.

I think in the States, they did the same thing. They made it illegal, I do not know. I'd seem to remember in 2000, there was something. Basically, all the online gambling companies had to move offshore. They weren't in the US.

That is probably going to be where the pressure comes from. If I had to guess, I'd say what would happen with retail trading because you are right, it is exploding. The regulators, the government, they are the ones that are going to push back.

It is funny how these things go in cycles where first it was the gambling, you've got to keep the guys out of here. If this is not working, then they all go to Bahamas or whatever. They'll all go to Caribbean, they move offshore. Now, they are going to get retail trading stuff that's crazy, push these guys out of here, regulate them, get them out of here.

It is like first it was smoking. "Smoking is really bad for you, we cannot have anyone smoking in public areas". Now you could see what is happening. It is moving so it's now sitting. "Sitting is the new smoking so you do not want to be sitting anymore, it is going to shave years off your life" or whatever.

I can just see people at their office. Nobody has got a chair now, they are now all standing up at their computers. Everything is just nobling, Darren. Soon, there will be no sharp edges on it everything. You know what I mean?

Everything will be just a pillow. There will be no way that we can possibly harm ourselves. It is just crazy. I do not know. If I had to guess, for retail trading that is what it is going to come from. It'll come from the regulators, they will try to stop people from harming themselves or something like that. I do not know, it is crazy.

The other thing that I want to mention with this idea about trading, why is it so easy to get into is? I actually believe that -- I think you are a great example of this -- that trading, profitable trading in particular, is simple.

I do not want to use the term "easy" but when you've really break it down it is simple. It does not take superior intelligence. It does not take computing power. It does not take necessarily a lot of what you would expect in terms of making it a business. It is a very simple thing.

I think that is one of the things that trips people up because they think there is something more to it. They over complicate it and, really, what it comes down to is how well can you execute what you mean to execute.

That is what I think where people get trip up. We've talked about this in other episodes where, basically, it comes down to yourself. You are the number one barrier to your success as a trader.

I do not think that retail trading is really easy to get into and profitable trading is actually a really simple thing to do and yet, that is probably why so many traders find

it difficult to get to that point because they feel like there must be something more to it.

“There must be something that you are hiding from me. There must be something that they know that I do not know.” All of these things they cycle through, all these ideas. Do you agree with that?

Darren: I do, definitely. I’ve been watching a lot of poker tournaments online recently. They are high-end, highly skilled guys and there’s so many parallels between trading and poker. The best example I see often is where a poker player has got a really good hand.

Everyone else has dropped out and there’s just one other person staying in with him and it’s been better and he has got a really good hand. You see that the really great poker players, the fact that the other guy is just staying there and even though he knows that the odds are still in his favor, the fact that there is a possibility that he could lose. He froze away a good hand and loses a small amount of money rather get enjoying to like really big loss.

That was the thing. That is the skill that is hard, that is the hard pit of trading. The actual mechanics are very simple, what you need to learn are simple but those difficult decisions are key moments. That bit was really hard to grasp.

I’d say to anyone, go on Youtube and watch some of the world poker tournaments and watch half an hour of that. See how the really good poker players, see how how their decisions and for them, there is a limited number of outcomes, there is a limited number of cards that could come up.

When it comes ‘til the end, they work out the statistics of how many hands could possibly beat them and it is clear. We do not really have that in trading because the movement appears to be much more chaotic than you’d get from a sequence of cards. There’s a lot to be learned from how they make their decisions in poker. Do you agree?

Walter: Yeah, that is fascinating. I hate to agree that with gambling, that there are parallels with trading because I think people confuse that idea but, I do agree. I would say I see it from a different angle.

I’ve been listening and I like to listen to this podcast where guys talk about Great Lion -- it’s an NFL stuff. In one of the podcast, what this guy does, he started doing this one with this professional gambler. Now, the guy does not know anything about gambling and so the gambler is explaining to him why he is taking this bet every week on this football game.

What's fascinating to me is how the pro gambler approaches it because he approaches it from a point of view, like this team is giving away 3 points so he'll wait. He waits until the crowd is going to push the line to a certain way. Let's say the beginning of the week the line is at 3 points so the favor is giving 3 points to the under dog.

He'll wait until they push it to 4 points and then he'll place his bet. That's why you see --I really never understood this -- that is why you see the line move. What happens is like the idiots, the don't-know-anything-about-it -- they are not-pro gamblers -- they'll take this early bet.

The smart ones, they move in at a certain point when the line gets to a certain level. I like that analogy because you can look at -- **and I'll link this up in the shownotes for people who wants to see this.**

A lot of brokers will offer, will give you these information, they'll show you what percentage of traders are long the EUR/USD or short gold or whatever and you can actually see these. It is the same idea. You can see the line being pushed, you can see all of the longs in the EUR/USD are gone and everyone short the EUR/USD now or vice versa or whatever.

I like to be in that little tiny group, right on the other side, if I've got the signal. I think it is fascinating. You can also look back historically, you can see that a lot of times what will happen, you can map the price, the price chart against the percentage of traders that are long or short.

For example, you can watch the downtrend in gold, you see the line chart is going down. This gold line is going down so the price of gold was going down and you can watch as the number, as percentage of traders who go long starts spiking up.

What will typically happen is the percentage of traders going long the market, it happens during a trend when the trend is consolidating. In other words, it is going down. Let's say the gold is going down, it is consolidating, it flatlines for a little while and all these people jumps in long because they think it hits the bottom.

Instead, what happens is it is just consolidating and makes another let down. Then they all get purged out of their positions and they'll get stopped out and then you could see the percentage of traders going long gold falls again. You know what I mean?

It is fascinating. The way I look at it, the way I mapped it into my brain, is like how these professional gamblers they wait for the line to get pushed to certain extremity

and then it is almost like it's pushed to the edge Bollinger Band or whatever and that is when they get in on that extreme side.

Anyway, I just think that is fascinating. **I'll link that up for those of you who wants to see these numbers and see what I am talking about.** It is not exactly what you were talking about but it is a similar idea. It comes from gambling and I found that fascinating.

Darren: We can definitely learn. The gambling thing goes round and round. I know people are falling against it. I think where there is a lot of skill and element of luck involved, then those things have a lot of parallels with trading.

Walter: Absolutely. We can learn a lot from probability game theory. All those sort of things just by playing games like that can help because that is what it really is. I mean, I have this theory that -- I do not know if you would agree with this.

I have this theory that you can take an eight-year kid and basically give them a trading system and if they didn't know that they are making money. Like, it didn't taint them and they just thought it was a video game they would just absolutely kill it.

Like, assuming that the system has a positive expectancy and all that, if you just gave them these computer and said "play this game" and then came back a week later you'll be like "woohoo!".

They didn't know that they were making money or whatever. It would be so funny. I think it is true, it is absolutely true. If they didn't know that they were making money and they just thought they're playing game and you showed them the rule, they would smash it out of the park. I guess that is why we have Child Labor Laws.

Darren: Yeah, that's what I was thinking. I was just picturing these kids lining up in the bank working.

Walter: Exactly. Can you imagine? Do not let the banks get this whole idea. Alright, that is all I've got, Darren. I really appreciate your time. Any last minute thoughts on why forex trading is so easy for people to get into?

Darren: Not really. But, the best point that you've made was the fact that because something is easy to get into for that reason, then you should be wary and do not risk all and more than you are prepared to lose.

Walter: Absolutely.

Darren: At least until you get good at it.

Walter: Absolutely. Thanks, Darren. I will see you next time.

Darren: Yeah. Great talking to you, Walter. Bye.