

2 TRADERS

[EP83: What Makes a Good Trader](#)

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

Walter: Welcome to Two Traders. It's Walter here and I've got Darren on the line. Hello, Darren.

Darren: Hello, Walter.

Walter: We are going to talk about this idea of how do you become a good trader? What makes a good trader? Is it something you are born with? Is it something you learn and how do you deal with hindsight bias that creeps in as traders?

These issues are tricky and I think sometimes, at least when I was first starting out trading, I thought I may not be cut out for this. Maybe it is just that everything I am doing, everything I touched turns to coal.

Every trade I take is a loser. Why don't I just take the opposite? Why don't I just sit and look at the charts and go, "Okay, I really want to take a buy here" and then actually take a sell? Why don't I just do that because that would make money, it would seem?

What you think? Can anyone learn how to do this? Do you think there's a special type of person?

Darren: I don't think anyone is a good trader. I think if you look at any research system on cognitive biases, we all suffer from them and they all will be negative in a trading type endeavor. We've just all got them to different degree.

I think we all generally come to trading, ask about trader,s and it is a question of whether you can find out what your issues are and build systems and processes to deal with them. That is going to put you on the right track. Still, it is no guarantee that you are going to make it as a trader.

We know that by the fact that there is a lot of intelligent people learning to trade. They've got the informations, we woke up with the same information. Generally, now with the internet, it is pretty much available to all of us.

Very few people end up making consistent or large gains trading. I do not think, in general, humans are good traders. Even if you learn the elements you need to learn, there is still more to it than that.

Walter: Yup, and that makes sense. Let me ask you this, what would you say to this. For example, what if the key to trading were that you had to determine the style of trading that works for you?

In other words, let's say for example, one of the traders that has difficulty making money is the one who says, "You know what, this whole thing is rigged. These guys, the insiders, they know what is going to happen. They know about the earnings report, they know about the unemployment. These bankers are talking amongst each other and setting and fixing the rates in whole of their lives or the scandals and all that."

This is all insider stuff that is why the little guy cannot make any money doing this. It is all rigged against the little guy. The big dudes, they've got it all worked out. What do you say to that?

What I would say is, "Okay, what you need is a system that basically leverages that idea." If your whole belief is that the big boys are the ones that are running it then, is there a way that you can look on the charts and see what the big boys are doing? Then, use that.

That is the thing I would say. Does that make sense?

Darren: Yeah, definitely. It is about locating opportunities. It is about seeing and visualizing opportunities in the way that price moves. Myriad ways of doing that and if something is being rigged, then there will be evidence of that in the way the price moves and there lies your opportunity to either play along with them or you go against them.

It is about having imagination and the unique vision to find those opportunities. I had someone say the other day that most edges lie in the places that other people aren't looking. Most of us are looking in the same areas and reading the same information.

I think it is those people who step back from that and have got the balls, if you like, to say, "Well, I am not going to believe that. I know everyone says that is true. Well, I am looking at the charts and I do not see that. Actually, I see a much greater opportunity doing the complete opposite to that so, I am going to go out on my own and I am going to explore my own ideas and build my own system and stuff what they are saying in the book and their rules."

Those people eventually are the ones who make profit. On the other hand, these people who've gone to work for funds and banks, they are taught a particular way to trade and they are also very successful.

So many different opportunities that it's really difficult to sort of say this is the right paper on how to be a successful trader but there's definitely some traits that seem to appear in everyone that does eventually make money from trading.

Walter: Yeah. So, what do they do? Some traders are saying it does not make sense to take a trade without having an opportunity to make the maximum amount of profit from that trade.

In other words, "I use trailing exit and I think trailing exits make sense. Trailing exits allow me to take advantage when the market really makes a strong move and goes far away from my entry price. If I have a set profit target, I am not allowing myself to do that." That is another way to see it.

Darren: I suppose, really. you are saying the way I am going to make money over the long run is by ensuring that I have some very big wins. That is a proven way to go about trading and if you can do that and if you can watch some trades come back, nice profitable trades come back, and stopped you out.

If you can sit for periods of not winning at all then it's been proven that that approach works. Generally, what happens is people made that decision then fail in the execution and applying and not sticking to the process.

Walter: I guess what we are saying is there are many different ways to make this work. If you can identify your approach to your beliefs, you can work off of that, leverage off of that and create your system and your strategy the way that you are going to trade the market. What kind of person would not be likely to be able to find a trading system that fits and makes money?

What would that person look like, then? If we're saying that not everyone -- and I am not sure that I am saying this but -- if you say not everybody can make this work, I suppose I would have to agree with that. What's the type of person that would not be able to make it work? Who are we looking at here?

Darren: I think we are looking at all of us to a certain extent. Some of us have the bad habits in a much greater extreme than others but, generally, all of us suffer from impatience, suffer from greed. Those cognitive biases that become really apparent when you start to trade that perhaps beforehand you do not really consider as a person.

You just think that it is your personality. You do not really break down your personality and say, "Okay, I am particularly impatient"; or, "I am particularly bad at saving"; or say, "Whenever I get paid, I just go and blow it on stuff that I do not need whereas, really, I should be a bit..."

You do not really have any reason to stop and self-analyze yourself. When you start trading, then you can do that and you can start to see which are your really bad habits. What were the mistakes that you were making over and over again?

It is only when you start self-examining yourself that you can break those things down and do something about it but I think that is everyone. I don't think there's just a small percentage of people out there who would just be bloody good.

Also, there you go, there's the chart, get trading and they are going to make money because I think these are personal of being a human being. Those mistakes and errors are parcel of human beings trading for profit.

Walter: Yeah and that is a fair point. I guess the point that I would make is what are you going to do about it? That might be the defining feature is. Alright, I am likely to say someone with the impulse issues, or the impulse control issues, is probably going to have hard time trading.

The reason why is because that person is going to want to take revenge after losers. It's going to maybe get a little bit wild, isn't very precise in how he/she executes trades. It could get a little bit crazy.

To your point, probably it is going to be the better traders are going to those people who are self-aware and are trying to come up with a solution to the issues that they have already identified. Is that fair to say?

Darren: Yeah, exactly that and it is very simple to do. I mean, we've all done it. You design a system, you backtest it, you see what the expectancy is for that system then you trade it live and you make errors.

Generally, what people do then is they've had bad results so they do not start again with the new system and the simple thing to do is to take notes. Journal your trades, make notes of the mistakes you've made, why you've made them, when you've made them.

Do a specific set of trades, say a 100 trades, and then at the end you've got a record of what your mistakes are and then say, "Okay, I clearly have a problem with taking profit early so on this next set, that is something I need to do."

Then, you can build systems within your trading system to stop you from making those errors. If your error is taking profit early, you build some sort of a raw base system you have to walk through before you take profit.

Within that you can have ways of... Basically, point one: are you taking profit early? Point two: is this way, your system said you should take profit? Very simple things like that just stop you and allow you to make some rational thought before just making an impulse decision.

Simple things like that can make you a more rounded trader. It is not going to make you a successful trader because you need a unique idea to come up with a system with longevity, flexibility. That is what's going to make profit over the long run and that is another skill in itself.

Learning to be a disciplined trader and follow a systematic approach, that could be done just with journaling, planning, time and effort, and trial and error.

Walter: Absolutely. And you want to reward yourself when you do what you are supposed to do. Reward yourself, keep it going. One thing I've learned is that it's even easier to make it a habit, to make the successful habit stick if you start really super small. Just super, duper small.

For example, let's say that you are trying to get to the point where your trades aren't losing money. Let's say that is what you are trying to do. What if you do this, when you take your trades, you move your stop loss to breakeven after it goes 20 pips in your favor or whatever.

Let's say, you have a 100 pip target and you are looking to get a 100 pips a trade but you move your stop loss to breakeven after it goes 20 pips in your favor. Now, what is going to happen there?

Well, you are going to get stopped out at breakeven a lot -- or maybe you put a plus one pip or whatever. You are going to get stopped at breakeven a lot but also what is going to happen is you are going to reduce the numbers of losers you have.

So, those trades where the market went 20 pips in your favor and then fell back down against you and stopped you out, those are not going to happen and your average losing trades are going to go down too.

I know if you add one pip, it's technically a winning trade. It's going to reduce the average winning trade size technically in your stats but you can look at those as losing trades or trades that never happened.

All you are really trying to do here, you are not trying to hit it out on the park. You are not trying to make a 100 pips on every trade. All you are trying to do here is to get to the point where you are doing one thing that is enabling you to get closer to your goal which is to keep and defend your account.

Keep the money in there and do not bleed money out of your account or you could do other things. You could do things like how about you only take trades when the market closes in your favor.

For example, let's say that you are looking at taking a buy trade. You wait for the next candle to actually close as a bullish candle before you take the trade. Just use little, tiny steps that you can take.

It does not have to be where you want to be in the end but by making a really tiny, little, bitty steps along the way then you can build up from there. I think this is really a good way for people who are at the point where they feel like, "This is crazy, it is not working. What do I do here?"

One way to do it is to just break it down into a really small achievable goals. The simplest is by just moving to breakeven quickly or whatever. Those are the things that you can do and then you could see it working and you can build on it from there, add to it.

Darren: Yeah. I agree with that, definitely. I mean, if you are going to learn to ride a motorbike, you do not go straight onto a 1000cc. You build up to it. The only thing I am a little bit wary of there is when you start out judging your trading on maybe you are making profit or not and you need to also give yourself a bit of credit for being able to follow a process.

You could trade a system quite a long time and lose money but actually learn a lot about trading in that time. If you followed your process, you are trading well. Just be wary of always beating yourself up just because you lost money.

Even good system will lose money. There's two sides to it ,really. Does your process and how you execute the system and then see. Does the system and improve in the systems bit by bit to go from someone who's making small profit to larger profits. There's the two sides, isn't it?.

Walter: Yeah, absolutely. I agree a 100%. With the traders that I've worked with, we spent two days talking about this exact thing which is how do you set yourself up so that you are focusing on the execution and not the end result because I believe you are absolutely spot on, Darren.

If you are focusing on the result, if you are focusing on, “Oh! I made money” or whatever on that last trade, that is not what’s going to get you there. That is not going to work over the long haul.

What’s going to work is focusing on whether or not you did the right thing given your rules. That’s it. It is all about execution and you should reward yourself for execution. You should ignore the results because, let’s face it, Darren, if the next tip trade you take is a loser, are you going to change your rules for your system?

Darren: Absolutely not.

Walter: Yeah, it does not matter. If the next three trades are losers, are you going to change the rules of your system?

Darren: Highly unlikely, Walter.

Walter: Yeah, that is the whole point. The whole point is all about the execution. If you can set yourself up so that you are rewarding yourself for execution and not disregard results. Obviously, you want your results to fall in line in what you’ve seen historically and you expect there’ll be certain parameters and boundaries and all that.

We talked in the last episode about when do you shut it down. Obviously, that is part of the deal but really what you should be doing as a trader is focusing on the execution. The other thing that goes with this, Darren, is talking about the types of traders that may or may not make good traders.

What about this idea, this concern that people have and they think, “Oh! I cannot believe I did that on the last trade” whether these things where we keep repeating ourselves up. We’ve got a hindsight bias, we know what happened on that last trade and we got out too early. “I cannot believe, I got out too early on that trade. I could have an extra 370 pips had I stayed in a little bit longer.”

What do you say to that? How do you deal with that?

Darren: Well, apparently, the best way to deal with it is to let yourself feel bad about it and is to beat yourself up about it and say you broke the process and that result lead you to losing money, one way or the other, and you should sit back and feel really bad about it.

Let yourself, let that feeling disappear into you rather than trying to correct it by actions because what people tend to do is when they do that, they instantly make a series of mistakes and they compound and get larger and larger to the point where it is such a mess. You cannot really deal with it anymore.

I've always been told that the best advice is when you do make a mistake like that is to sit back and feel bad about it. Then, going forward, you need to build some sort of a structured process where if it is a mistake you make very often, you've got like a checklist in place which is going to help you deal with that until you've retrain your mind to see those moments in a different light.

Walter: That is interesting because I think what you've said men are more prone to that, in general. Men are more likely to go, "Alright, I made a mistake. There is a problem here. I did not do the right thing and so now I am going to do x, y, and z and fix this, blah, blah, blah and make sure this is not going to happen again", that kind of approach.

Whereas, women are more likely, in general, to go... Have you ever had an experience where you are trying to fix something? Like, there's a woman in your life and she is like, "You know blah, blah, blah blah," and you come up with a solution?

You come up with, "Oh! This is what we'll do. We'll do this, this and that, get rid of this." And she is still not happy because she wants to actually like, "Look, I do not want you come up me with a solution here. I want to be the shoulder to cry. I want to feel bad about this and grieve," or whatever it is.

These are the things they want. They do not really want you to come at, "Okay, let's fix this. We'll do this and this and that." I think that may be part of the reason why I've noticed that women often make better traders.

Just like you say, they wallow in that and they just experience it. They are not so fast to jump right up and go. "Alright, that's it. This is what I am going to do blah, blah, blah." Because, what you were saying is, by experiencing the feeling, it drives at home and that is much more likely to be an issue of change. Is that basically what you were saying?

Darren: Yes, definitely. I cannot really comment on the male-female thing because I really only knew quite few female trader. I know you've worked with quite a few but I find that the next action you take is really important.

Your gut instinct is for that next action to remove the negative effects of that mistake so that it might be jumping straight back into a trade that is not a valid entry. Even if that wins, it is already causing troubles because you are basically teaching yourself that following your process isn't important.

Even if you have a lucky outcome from that bad process, there's not many positives to that. Any other thing would be say, getting back in with the large position size.

Something like that where you are trying to remove that bad feeling through an action.

Whereas, you are much better to actually let yourself feel that bad feeling you learn a lot more from that than you do try and act it out.

Walter: That is so interesting because it dovetails in with the research on people who've had really bad experiences. There's a child in a family and they had a horrible experience. The family that do not talk about it, the family is just close over that and act like it never happened, the child is much worse off later in life, it turns out.

Whereas, those families that are open and talk about the experience, talk to the child about what really happened, whatever it was -- they saw some murder or whatever happened -- those children are much more likely to be better adjusted later on in life, which I find interesting.

It is associated with what you were talking about. It is similar idea.

Darren: I think, on a positive point, I-cannot-believe-I-did-that moment seems to happen much more when you are starting out trading. It is fairly easy to reduce the amount it occurs. When you are in the moment, it feels like you are never going to do it but with practice of trial and error, you can reduce that effect.

It does really get quite easier after a while to be more process-driven. I am not saying that everybody gets there but it is not such a massive hurdle as it appears at the time. When you are at months on end repeating the same mistakes, you cannot seem like I just haven't got the right setup psychologically to be a trader and it can feel like that and a bit daunting.

It is actually quite easy with some simple sort of processes to eradicate a good majority of those errors.

Walter: Are there some that you've thought to be more useful than others?

Darren: First and foremost is accepting that you've got a problem. It is like the alcoholic thing. Once you have accepted that you are alcoholic, it is much easier to give up.

As long as you are in denial about it, as long as you are blaming your mistakes on, "Oh! Well, that was because of that news release and that was because of what was happening on the 4-hour chart and I didn't check it." As long as you are doing that, you'll never going to get over it.

The first thing is finding out what your problems are. Usually, the mistakes you are making all the time really glare in the obvious and you cover them up and that can be simply just by writing down a series of trades over a week or over a month. What you did, what the outcome was, what you're supposed to do.

It'll soon become glare in the obvious what your problem is and then you can actually focus on it. Just build some simple checklist that come into play at the times when you make your errors and then you just have to follow that process for a period and you've retrained your brain.

Walter: Absolutely.

Darren: They do it in the medical profession now and you think about airline pilots. Airline pilots do not need to be told what to do every time they go in to fly you off on your holiday. They've had years of training and they've done thousands of hours of flights. They do not need to be told what to do but they find that if they have a checklist, then less errors come in.

It is human to make errors in the process and simple things like checklist can make a huge difference. And, like I said in the medical profession, they've found simple operations where they've reduced the mortality rate massively just by having checklist.

Doctors washed their hands and simple things like that. Writing list and writing rules down, writing things down full stop, can be a really powerful tool. If you are not using it, you are putting yourself at a disadvantage.

Walter: Just to clarify, Darren. So, you are on the side of maybe trading is not for everyone. There might be some people that it is not really something that you should be doing or you're probably won't be able to make it work.

In general, the better traders are the ones that are -- and I agree -- are basically working on identifying their faults to their issues and then coming up with solution and ways to overcome them.

Darren: I am not sure though that I'd say that there's only a certain group of people that can become successful traders. It is just like such a broad span of opportunities and ways that you can possibly trade.

I do not think any particular personality make up is necessarily going to be negative. I think certain people are just really good at scalping. Some people are really good at holding trades for a long time.

I think everyone can make it work but it is a question of whether you go down the right path and look at yourself, find out what you are good at, and whether you can apply that in a way that generates an edge in the market.

I do not think that everybody opens their mind to that possibility or goes down that route. They try and have their way appearing intelligence or just by working on the system of trading.

I think those people probably are less likely to make it but I'd hesitate to say that it is only suitable for certain personalities.

Walter:

That is fair. I guess what I would say is if you are approaching this in a way where you are saying, "Look, so and so is making a lot of money trading. I am just going to what he does. I am going to do what she does." That is not long term.

You are not going to find long term success there. Instead, what you want to do is look at different things, expose yourself to a lot of different ideas and then the one that jumps out at you and go, "Okay, that makes sense to me. Yeah! I see that in the markets. When I look at the charts, that is exactly what I see. I am exactly going to do that."

That is really what you want. You want to get to the point where you identify with an approach because it matches up what you believe and what you "see" on the charts if you are a technical trader. But, if you are just going to try to find the best dog in the dog pound and the cutest dog and say that is the dog I want, that's the one right there. Because you think that trader is the best trader, I do not think that is going to help. I really don't.

I think that is the path to turning to different systems and different mentors and different ideas and all that. Instead, what you really want to do is you want to find something that resonates and makes sense and go, "Yeah, I really like the way Darren trades. That makes sense to me. I really want to do what he does, not because I think Darren is the be or end all. I am sure he is great but it is because what he does makes sense, what he does. That's it, that is what I see."

To me, that's really where you want to link up with a system, or a community, or whatever it is.

A book or whatever it is that you are using to advance your trading. It is going to be the one that resonates with you because it makes sense to you, because you see the same thing.

It is not about, "Oh! This trader, he took 5 grand up to 500 grand in the last 13 days so I am going to do what he does." No, no. That is fine and maybe he did that, that's great. That is wonderful but that does not mean that you are going to be able to make those same decisions, right?

Darren: Yeah. Your belief system is going to be a large part in your success.

Walter: I really appreciate it, Darren. Is there anything else you want to leave us with before we shut it down? Because, this has been a good one.

Darren: I think we've covered it all there, Walter.

Walter: Great! We will see you next week, Darren. Take care.

Darren: Take care, Walter. Bye.