EP101: Trading Without A Chart

Darren: You do have to make changes but not always...

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. Hello, Darren.

Darren: Hello, Walter.

Walter: We're going to talk about this idea of trading without a chart today. What do you think about that, Darren? I think that would tickle you. I think you'd be happy about that.

Darren: Yeah, definitely. I mean, can you trade without a chart and make profit? Of course, you can. You definitely can. I suppose there would be elements of it that would be beneficial because we are certainly drawn to bad conclusions sometimes because of what we see on the chart and what we believe that represents.

What I'm interested is where the question came from. Is this... Are you leading this somewhere or is it a question that was post to you?

Walter: What got me onto it was I was thinking of this this week because I don't know if how many of the listeners or, Darren, if you've read the -- and I'll put it in **the shownotes** for people -- "The Reminiscences of A Stock Operator" book.

It's the old story about the guy who went in and made money from the old bucket shops where which actually there's a lot parallels to today. Like, when you look at forex brokers how they trade against you, most of them -- nearly all of them -- and how they make their money from assuming that their clients are going to lose overall.

So, this guy would go in and he would look at the ticker and -- he was basically like a tape reader -- he would kind of like the modern day scalper who just look at their trades as they go through.

So, they're just kind of looking at all of the orders that are stacked up and that are flowing through the market and based on that information. That's how they make their trading decision so they're not actually looking at charts. They are just looking at essentially trades as they go through and I think that's basically what he did in the story. Now, the story is that this is a thinly veiled biography of -- the book was supposed to be written by Edwin Lefèvre but it's actually Jesse Livermore who is a pretty famous trader back a hundred years ago -- over a hundred years ago now.

So, that's what got me to start on this, this idea of, "If you work and use any chart, what might you use?" There are actually traders out there who would argue with you that trading charts doesn't really tell you the most important information. You know what I mean?

Darren: Yeah.

Walter: Well, yeah. The most important information to them is they don't care that over the last one minute, the EUR had a high of 11925 and a low of 11922. They don't care about that. What they care about is how many orders came in at the bottom of that candle versus how many orders came at the top.

And what's happened recently more orders coming at the top or at the bottom of the candle. These are the sorts of things that they're looking at because they are just looking at order flow.

Bank traders do that too, really. They just look at order flow so I just thought it was an interesting idea. Obviously, there are traders out there that will sit and tell you, "Yeah, you don't need to look at the chart. You can just look at what's happening right now. How are the orders coming through."

So, basically, they're looking at every single execution that pops up on their screen. I suppose, I mean I'm not an expert by any means, but I suppose they're just basically trying to figure out is there a lot of pressure on the... If you are thinking of that M1 candle and it could be a H1 or D1 or whatever but, it's basically, that will be a long time spent in front of the computer.

They are basically trying to figure out is there more pressure on the bottom of the candle or the top of the candle because they would argue that the close of the candle doesn't really tell you that.

What tells you that is how many orders came in at the bottom of that candle and how many orders came in at the top, basically. They'll look the same, they was as chart readers if you're looking at the chart but, to them, it's totally different information. I just thought it was a fascinating idea.

Darren: Yeah. I mean, I like the idea of looking at the problem from a different perspective and we do seem to be obsessed with this idea of looking at some price datas over a period of time in maybe a single candle, you could say, or even a pattern of candles and then, using that as kind of cause and effect of what's going to happen in the future. That's what seems to be what our obsession for retail traders, we seemed obsessed with this idea that that is the sole way to trade.

I like this idea of looking at the bigger picture and saying, "Okay, on a bigger scale, what generally happens in the movement of price?" and not really breaking it down into candles or candle patterns but really how price moves.

What is most likely to happen? What was least likely to happen? What sort of movements can we expect? Then, looking ways of finding edges from that. I really like that idea.

It is strange but I suppose it is not strange that we are obsessed with this idea of reading the candle and developing a story from that. I am not saying that that can't work but in a field where everyone has a high level of expertise and learning the same technologies, you do have to look for edges in different places or it might be easier to find real edges if you look at the problem differently and I really like that idea.

Walter: Yeah, exactly. So, if you are to trade just looking at the ticks or the orders that come through and make up the market, I suppose there'll be a way to somehow -- I'm sure of it. I'm sure that there's a way that you can see that information.

So, it's not presented as a high, low, open, close sort of candle or bar chart but it'll be kind of shown as an almost like a distribution, I suppose, as how many orders have come through at 11925 or how many orders have come through at 11923. That sort of thing.

So, it's sort of like a distribution and you would see whether the candle was heavier at the top or the bottom and based on that, I guess, you would be reading momentum. I'm just totally speculating here but I'm just trying to think of how they would see that.

So, if you saw a lot of orders coming through at the bottom of that candle, you would suppose that the market was getting heavy and was going to go lower and maybe you would sell. And, maybe you would just sell for a couple of pips or whatever or maybe you would sell until you saw that it started to turn around and go up or something, see more orders at the top of the next candle or something like that.

I think it's interesting because no one really looks at it that way or very few people that I know do. I do know that they do it in the banks. That's pretty obvious that they do a lot of that one, watching the flows of orders and they piggy bank on that or sort of go with the current so to say in their trading.

Darren: Yeah, definitely.

Walter: Yes. So, it's interesting.

Darren: Yeah. I think a lot comes back down to where you believe the edges are in the market, where can you find advantage. I mean you could say that you don't necessarily need to see the roulette board to play roulette, you don't. You could just pick a number. You don't actually look at the tile but the edge that exist -- or doesn't in roulette -- will remain the same however you deal with that information.

So, you might come up with a strategy where you can look at where the balls landed in the roulette over a sequence of spins and decide you have a strategy but that doesn't change where the real edge lies in roulette and that lies with the house. That is going to remain the same.

So, I think with trading, the secret is to really understanding where the edges lie and everyone will tell you a different story for that. Some people will tell you it's in reading price action, some people will tell it's in managing your position size.

Some people will say it's managing your open trades, letting your winners run and cut your losers short. Everyone will have a different belief on that and who's to say what's right and wrong?

For me, it's not in the entry -- or let me put it another way. The entry where you decide to trade is one of the least important for me but there'll be people that will tell you the opposite of that.

So, I think what you believe is true about the market can change the way how you approach it.

Walter: Yeah. And, there'll be traders that won't even look at the order flow or technical charts and just say, "Well, I know that the Bank of Japan is going to be cutting rates and I know that the Federal Reserve is going to be raising rates and so I'm just going to base my trade based on that," so they're like position traders.

They don't even look at the chart. They put their trades in based on their analysis of the fundamentals and that's it. They just go with it. I mean that's another way of trading without the chart.

Darren: Yeah, and to me, that is the best the way to trade. I think really you need to. To me, the most important things to focus on managing your position size and how you manage your winners. Whether you have the ability to generate bigger winners than your losers and the rest really is fairly irrelevant to me and then you kind of have to build strategy to make that work.

That is how I see the market. And then, there's elements within that that you have no control over because you can base it on the fact that trends are going to occur and in this particular year you could have no trends. You can't predict that, you can't control that. You have to leave that there is that element that you cannot control.

Walter: Yeah, exactly. The more I think about it, the more longer I've been trading the more I think that one of the key things is learning how to be wrong. When I think back how I started trading, the biggest mistakes were when I couldn't admit that I wrong.

I mean, that's basically what you were saying. Being able to and take advantage when you're right too, I suppose is the other side of that, right? Like, making sure those losers are as tiny as possible that they stop the bleeding when you can and then take advantage of those opportunities when you are right.

Doesn't really matter how you do that, really. I met a trader who's always in the market and he's always kind of just adding little positions here and there, and just kind of hair cutting them here and there, where they just lightening up here and lightening up there.

He's always in a drawdown and he's always got all these trades going and he's just like but these all tiny trades and he's just kind of managing the losers and capitalizing on the winners. When the market turns and then he's still got positions going both ways, you know what I mean? It just kind of this dance.

Darren: Yeah and I think also, it's not only about being wrong with your decisions. I think you have to expect your expectations to be wrong as well and that's quite a hard thing to take over a long period of time.

Because we really kind of want to nail down what's going to happen with our strategies and it never really quite works out. Never really quite works out as you would expect. There's always that element of variation going on and stopped being distributed differently to how you expect and you have to deal with that as you go along. You have to roll with the punches.

Walter: Yeah. And, you're talking more much of like distribution of winners or you're talking about drawdowns or average gains per week or month? What's like a concrete example of what you mean?

Darren: Drawdown is a good one. I mean, how many times have you sort of work on a strategy, tested it, worked out with your worst drawdown is going to be? A massive... I mean, most consecutive losers and then it just never really quite works out that way.

They've always froze you in a curve ball and no matter how much you prepare and study your strategy and backtest and go for all different markets, it never really get quite turns out like you'd expect it to in live trading.

That could be for various reasons but you have to have that open mind that, "Okay, this is what I'm expecting to happen" but you really need to be able to adjust as you go along as well.

Walter: Yeah. So, what's been the biggest lesson for you in terms of learning to, for example, with the drawdown? What's the biggest thing like would you go to strategy or coping mechanism, you know what I mean? Like, okay, so you're expecting a drawdown of 15% and here you are sitting on 21% drawdown or whatever. What do you do?

Darren: I've been writing about it, actually. That is what I've been doing. I've been writing posts about the fact that you should live with this belief that regardless of what you expect your drawdown to be, it's going to be bigger.

However, many consecutive losers you think you should get, you're probably going to get more. I'm preparing myself for it and it generally works out that way but it works the other way as well.

I mean, you get more runs of winners than you've ever thought you would and you get bigger winners than you thought you would as well. So, really for me, just writing it and sharing with it and getting people's feedback and what they think on the subject has helped me deal with it.

I used to go down that path of, "Okay, there must be something wrong with the strategy so I'll change the strategy." Usually as a rushed changes of strategy based on something that's happen most recently, and that rarely, rarely work out well for me.

Walter: Yeah, I agree. But it's tempting, isn't it? To just blame it and say, "Well, the market is not the same now so I've got to change something or going to change markets or something." It's like a ready-made excuse just waiting for us.

Darren: Yeah and I think it comes down to whether you believe. Again, it's what you believe is capable or do you roll with the notion that you're never really in control. No matter how much you've tested your system to prove that it has maximum drawdown of this then you can still blow up.

I mean, how many real long term traders have we seen saying they've used a strategy for 15, 20 years and it was always good and this was the max drawdown and then it stopped working and so they have to like then go and change it. Am I contradicting myself now? You do have to make changes but not always.

Walter: Yeah. The thing is the way I look at it -- and maybe this is not the way that the most efficiently to look at -- but the way I look at it is, let's say for example, I've got a system that works really well in a trending market and it's just not working.

It's like this week, it's just not working so, you can step back and say, "Why is it not working?" It could be that the market has stopped trending. It could be I'm just totally blowing it and I'm not doing the right thing. I'm basically not trading the system because I'm being an idiot.

I'm just doing the wrong things. Am I not managing or executing it as I should or is it something totally different? Like, I've messed the position sizing or something which is there's checks and balances for that.

It's inexcusable. There's tools and things that you can do to make sure that doesn't happen but that's the way I look at it, it's like what's the right tool for this market so, you've got this range-bound market where it's stuck between here and there. If I really want to trade this market, what is the right way to do that?

That's the way that I'll look at it. Is if I'm trading, if I'm using a trend system and it's starting to fail, maybe the trend is over. Or, if I'm using a system which is really, really good with range-bound markets and it's starting to fail, maybe the market is starting to trend.

Just take a step back and see if you're using the right tool but I don't think that's the best way for everyone to do that because I think if you have too many tools in your tools chest, sometimes it's just not good or confusing.

Like I have a friend, for example, he has too many surf boards -- way too many surfboards -- and so part his day is spent deciding, looking at the waves and going, "Well, I could take this board or I could take that board." It's like he's confused by choice, you know what I mean?

So, I think that the same thing can happen if you have a lot of trading systems. If you have too many trading systems, you can get confused by choice or take too much risks or something like that.

I don't know. I mean, to me, I guess. it should be obvious like the thing that I strive for when I see a chart is I should know straight away yes or no. When I see chart, it's like, "Yes, there's a trade" or "No, there isn't. Boom! Throw it away and go to the next one."

To me, it should hit me in the gut and if it doesn't just jump out of me and sing. I was like, "Okay, next" so I don't know if that's alright.

Darren: Yeah. We get too complex into the notion of reading charts, don't we? I mean, it should be perhaps say a simple 4 or 5 things at the most that you'll look at. I think we have this notion that if you'll go into more and more detail, that that's somehow the answer is going to be revealed.

I see some people's ways of determining if there's a trend or not and they're go into so much detail. I think they're going down the path that they believe that that is the answer. Whereas, for me the reality is if you have just made more of the times that you were right and it wouldn't really matter how you determine the trend.

Walter: Yeah, exactly.

Darren: And, I know Dunn Capital Trade trades that way. He trades a really simple... I think he's just got a really simply moving average crossover for determining when a trend is finished and he just does that over and over again.

But, when he gets to the one that goes on, he gets insanely massive winners and that's how he trades. He doesn't go into a massive amount of detail of the price action and level of this whether it's diverging, it's just okay. "This could be a trend change, I'm going to take my trade," as simple as that.

Walter: Yeah and they're always in the market. They are literally always in the market, right?

Darren: Yeah and he has bad years but those bad years come when the trends don't occur. When the trends do occur, he's in them and that's another way of approaching the market and he's looking at charts but he isn't looking into too much detail.

Walter: Yeah. I bet most people, if they could see the trades as they flash through as their orders come through and they're hit, I bet most people could figure out where price is going to go.

I think it might take a week or something of just sitting there watching it but I bet most people could do that. I also think that most people could probably just take one indicator like a moving average or whatever -- MACD or momentum or something -- and figure out a simple trading system based on that too. I think we've just complicated too much.

Think about this, like what if you can take all of your winners and add 50% to those? Let's say right now that you're listening to this and you're like a break even trader, what if you could go back and magically erase all your winners and just add an extra 50% to that? What would that do for you?

Obviously, now you're in profit, right? You haven't done anything. You've just take all the same trades you took over the last month, let's say, but you've just add an extra 50% to your winners. That's actually not that hard to do. I mean, that sounds really simple but you can just-- when your trades starts going in your direction -- just add another position.

It's not that crazy and obviously some of it are going to retrace and stop you out and maybe you'll get stopped out at breakeven or small loss or whatever. so those ones are… You're going to have some more losers than you'll normally have but if you could add 50% to say half of your winners, I think most traders will take that. That's a better result, better bottom line.

It might be harder to trade but because you have to deal with those trades where you'll go, goes in your favor and you add to it and then it comes back and stops you out at a breakeven or maybe a small loss but for the ones where it keeps going, those are the ones that you'll make all. That's where you'll make all of your winnings for the month.

Darren: Yeah, definitely. Talking more about this, the notion of looking at chart and not looking at charts, do you think it's how appealing they are visually to us that leads us to be so in love with this idea of reading charts?

Is it because we like patterns and we like to be able to develop a story around things? Is that the main reason or is there a real benefit in reading the charts?

Walter: I think you're right. I think like I'll look up onto the stars, Darren, and I don't know about you but I can't see all those. I can't see the horse and the crab and all those things. I just can't see them but, obviously, people looked long enough and stared for enough years that they can see those things.

We have to admit that our trading platforms, like if you sat down next to your trading platform let's say, you take somebody who's never seen a trading platform and you sat them down in front of your trading platform, it doesn't matter what it is -- any forex trading platform -- and then you take that same person to Las Vegas and sit them in front of a video poker machine. I don't know if they'd really be able to tell much of the difference. It's the same thing, isn't it?

It's just flashing lights and sounds and it's all made to look rather exciting and keep you putting your quarters in or whatever, your dollars or whatever. I mean, that's really what it is.

So I think, pokers understands that we're very visual and I think that it just make sense. So many people are so visual, it makes sense to them to look for visual cues and clues. I think it's easier for us to come up with visual stories but I don't think that that's necessarily bad.

You can embrace that and go with it, It doesn't mean you have to fight it but I think you're right. I would have to agree with you there.

Darren: Yeah. I think it's important to understand the importance in the big picture as well.

Walter: What do you mean? Like how so?

Darren: Well, let's say you like trading pin bars. Visually, they stand out fairly obvious and price moving down and then reversing and going up in itself can be a good indication to trade long but just trading pin bars is we'll just say, "Well, I'm just going to trade every pin bar," is not going to be the answer for being profitable.

It's going to be how you manage your stops, how you manage your position size, and how you take profit on them and then the bit you have no control over what the market actually does.

I mean, if you have only bullish pin bars occur in a strong uptrending market that's trended for a long time, then you're going to do well but then whether you do really well is about how you manage those winners.

Whether you took profit quickly, whether you trail the stop those sort of elements and the actual pin bar itself really is probably the part of least importance. A good way to highlight that is find a successful pin bar on the daily timeframe and then have a look on the H4 timeframe and see what that pattern is compared to the daily.

You'll find that the pattern that happen on the H4 wasn't... It's not necessarily always a pin bar but it also represented the same movement and price. Price went down and then it went up.

Do you see what I mean? If you break down the actual data to smaller timeframes, you can realize really all that happened was price went down and up and the actual bar is not significant.

Walter: Yeah, exactly.

Darren: I know you use patterns like that but I'm arguing that the reasons they're successful is not the actual pattern. It's how you manage those trades afterwards.

Walter: Yeah, I've looked at the data. If you'll just took every single one, you would be in trouble. For example, it's like saying take every inside bar or not every inside bars is the same. Like, if the previous candle had a… Let's say that the candles on your daily chart that you look at, they're typically around 80 pip range on the day.

If you have an inside candle that was a 100 pips because the previous candle, the outside candle was 350 pips, technically you've got an inside candle there but it's not... You know what I mean?

Darren: Yeah.

Walter: It's not really relatable to the one that's a 30 pip candle. It's inside of a 75 pip candle. You know what I mean? So, like, they're not all the same.

Darren: Yeah, context.

Walter: Yeah. Context is everything. For sure, managing your trades like how do you get out of your losers, how do you get out of your winners, all that's what matters. It's funny though when we first start trading, I think most traders, we want a magic solution that's going to give us a lot of winners.

We only really pay attention to the numbers, to the expectancy, to the reward to risk. That is not as important, that comes later. That comes later where we focused on that. At least, that's what I've noticed for most traders.

Certainly for me, when I first start trading, it was all about finding winning trades and then it became, "Okay, how do I maximize my winners and maybe give back some of those winners and let those be break even or losing results in exchange for a much bigger winners?"

And then from there, it's like, "How do I really compound this when I'm right?" and then finally, "How do I stick to this?" That's the psychology. "I think this is going to work but how do I stop myself from sabotaging myself and tell myself that it's not working anymore?"

Alright, so this idea of trading without a chart sounds like there are many different ways to trade without a chart. It looks like... I mean, I think people do. I don't think when Warren Buffett back in 2006 or 2005, he sent a whole bunch of USD into AUD so it's like unleveraged trade.

I don't think he was looking at any chart. All I think he was doing was basically just assuming that the AUD was going to go up and he was right that the interest rate differential between Australia and the US would be so great that the AUD would go up quite a bit. He didn't have any... He wasn't looking at Bollinger Bands or anything like that. He just have an idea and he acts on it.

So, that's one way to do it. You just have a simple idea, you can act on it, you can look at order flows. There's lot of ways to trade without chart. I think even, though most of us are drawn to charts, certainly it's not the only way to trade.

Darren: Yeah, I totally agree. Just understand how your eyes work and how they interact with your brain and study that a little bit. Understand how we work as human beings and then you can spot pretty quickly where are some of the flaws in your approach to your trading specially with the visual aspect of it.

Walter: Cool. Alright, Darren, thanks for your time. We will see you next time.

Darren: Okay. Cheers, Walter!