

2 TRADERS

[EP11: A Simple Way To Profits](#)

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Walter: What you're using doesn't really matter, but you've got to use something to keep you disciplined.

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 episode of the 2 Traders podcast, Darren and Walter explore why “busy” traders may not be more profitable. We also look at the “trading trap”, otherwise known as *weekly goal*. You’ll see how to know when your emotions start to affect your trading. We explore behavioral analysis, the new paradigm in trading - and how one group is doing technical analysis on the trader, rather than the markets. You’ll see how the reward-to-risk ratio can create luck for you. And Darren and Walter create a **one-sentence trading system** - a very simple and powerful way to find, and exploit inefficiencies in the market. Should you use trading targets? Walter and Darren differ in their approach. Darren’s changing relationship with the weekend, as a trader. You’ll see how psychological pressures change as you advance as a trader. We explore where the giant leaps are made for traders, and it’s probably not where you think it is. And finally, we look at how trading presents your warts, and what this means for you, and your trading. All of this and more in this episode of the 2 Traders podcast.

Walter: Welcome back Darren. How are things in your world today?

Darren: Really good actually. I've had a really good couple of weeks. My trading's good, I'm feeling positive. Yeah, it's been going really well.

Walter: Excellent, excellent. Yeah, I'm feeling pretty good. Had a bit of a holiday, and I'm back now and sort of gearing up for an increase in the family size. We're going to have another kid in the next week or two. Yeah, I'm feeling pretty good and kind of excited about just, I don't know. It's this feeling you get, because it's springtime over here in Australia, and this feeling that you get where everyone's sort of gearing up for Summer. They kind of know it's around the corner, and people are starting to filter into the beach where I live.

The energy level's kind of building, and there's a lot of anticipation. I really like this time of year. Yeah, it's been going really well. I was able to take a couple of trades while I was on holiday, and still kind of waiting to see how those unfold, because they're weekly chart trades, so that'll be a while. There are a couple of other ones that are setting up on the chart, so I'm feeling pretty good at the moment, yeah.

Darren: Yeah, that's the beauty with your longer term trading. Doesn't take over your whole day, does it? I mean, you only need to give it a small part of your day.

Walter: Yeah, and I think you have to fight that feeling, because I think a lot of people, especially if they're used to having a job, and when you're at a job, it's usually some sort of thing where they trade your time for money. Or, you're trading some sort of end product like reporter or something for money. You feel like you need to be doing something. I think a lot of traders, when they make the leap into the full time trading, they probably over trade, because they feel like they should be doing something.

They sit down and think the charts, and they think, "Okay, what should I be doing right now? Where's the trade?" I don't really think, for me that's not the best way to find the best trade. It's almost easier to let it come to you, and just see, "Okay, wow, this looks so good. I've got to take this one." Rather than, sitting down and trying to fish something out of the charts.

Darren: Yeah, I think that's one of the hardest things that we, when we're trading have to deal with. Everyone's kind of in a rush. Not necessarily in a rush to make money, but in a rush just to be sure they're doing the right thing. We kind of need that constant reassurance. It seems to be exaggerated massively in trading. We just need to know that we're doing it right. We find it very easy, like you say, to just kind of be relaxed about it and let it come to you, and accept your sort of way of trading. It doesn't necessary have to be perfect, doesn't have to be the answer. People really want those kinds of specifics and guarantees, the way they're doing it is right. That's a really hard thing for people to get over. I have to work constantly.

Walter: Oh yeah, absolutely. I mean, I've had a few losers recently over the last couple months. It's not a nice feeling but, the danger is that you fall back into that pattern of changing things up, and finding reasons to adjust your system or whatever. That's the thing that I try and fight. This idea of being busy and doing something, you can put a lot of pressure on yourself. Especially when you say, "Okay, well I've got to make X percent per week, so that I can make the same amount of money I made at my job." That's why I think you should really have kind of a little savings that you can use for six, nine, twelve months to live on, so you don't have that pressure to sit down and trade every day, and bang out some money. I just think it's just not conducive to long term success.

Darren: No, you need to ... I've been quite active with my trading recently. Do maybe about 20 trades a week, which doesn't sound a lot, but I'm monitoring the charts from London, I can lay by Frankfurt open, and really up close to New York close. When you do that, you really got to be at the stage where you kind of trade methodically. I have all sorts of fears and worries and emotions throughout the day when I'm doing that, but I've just kind of, I've just learned enough to control it. The mistakes that I make don't really affect my trading.

I've started to sort of keep data on my results a lot more than I ever used to. I put a post up the other day on one of the threads that I write for, and I had nine straight losers. I was just trying to sort of make an example of how my win rate ... It was 100 trades ... My win rate was exactly 50 percent, and I was just trying to sort of emphasize a point to people of, within that, there was like nine losers. Then there was like a run of really big wins. Then there was like a whole long period of winning and giving it back, and winning and giving it back before I had another nice little profit thing.

If you kind of look at the chart of your results there, you can kind of pinpoint these places where you're going to be really affected by your emotions. That's going to happen, and all the time you've got to know that that's kind of coming round the corner, and teach yourself to deal with those things. It's a really thing to learn. I think it just takes years and a lot of losing, and a lot of frustration before you finally say, "Okay, I'm making mistakes here."

Walter: Absolutely, and when you're talking about plotting your own ... I guess, sort of what you're talking about reminds me of the ... There's a group in the states, and they have a team of traders that they employ, and they do analysis on the traders? The traders don't know how much risk they're taking on any give trade, so the way the platform is set up is they just enter their trade in there. Dynamically, the position size adjusts, and it adjusts based on what you've just spoken about. What they know is that, typically when the trader has a strong ... When they do really well and they've got this great win streak that, they get a little bit overconfident and then they're much more likely to start making poor decisions. These are obviously discretionary traders. What happens is, the system dynamically adjusts and reduces their risk, as they get to this point where they're feeling really confident. It's like technical analysis on the trader.

Darren: Yeah, it's that kind of behavioral analyst.

Walter: Yeah, so they'll do things like plot your moving average, and look for moving average crosses on your performance and things like that. The cool thing is, the traders are oblivious to it. They just enter the trade as if they would always. Of course they know when they've had some winners and losers, but they don't know how much money they're making or losing. The system adjusts, and likewise, the system will assume, as you've had a run of losers, it will start to actually increase your risk amount, because at a certain point, you're expected to hit another streak of winners and so forth. It's really kind of an interesting way.

I mean, some statisticians would disagree with this and say, "Well, that's not really ... Every single position, has the same probability of being a winner. It doesn't matter, because they're independent events, so the talk about this independence of events and stats." Right? They're more interested is ... They're almost plotting the psychology

of the trader, and saying, "Well, you're more prone to making mistakes when you've had a lot of winners, and you're more prone to turning it around when you've had a streak of losers", and so forth. Yeah, so they use the position sizing to capitalize on that, yeah.

Darren: Yeah, I think that the whole emotions and neuroscience and how we make decisions, is kind of taken over from the technical analysis thing, which was kind of the driving force for new ideas for a long time. It's kind of being balanced out a little bit now, isn't it?

Walter: Yeah, absolutely, but one thing I've noticed is ... You're right, I agree, I agree, but what's interested is, you think about other markets. I had a friend who went over to China, and he was working with some traders in China ... I have two friends, actually, that have done this ... But now, what's interesting in China is, it's almost like in the western world the focus is almost shifted so much, as you say, from the system to the trader, right? This is happening, but what's happening in China is it's almost like they're a few decades behind. One of my friends said that all the traders kept asking him the same question which is, "We need indicators. We need systems."

These guys are really hungry for trading systems, because all their focus is on that. You might argue that, in some ways, the culture is better set up to produce traders that are a little bit more mentally strong or something like ... I don't know which side of the argument I would fall on that one, I'd have to think about it. Certainly, he came across with this notion that, it seems like they're almost behind, because of the stock markets are opening up and trading is starting to be this big thing in China. It's almost like they're looking for the things that traders in the U.S. or in Europe were looking for two decades ago, where it was all about finding the right system, and the system is the key to unlocking your trading success.

Meanwhile here, we've sort of shifted and there's a lot of focus now on the actual trader. I'm not saying that all western traders have decided to focus inward, and focus on the trader. Certainly, many beginning traders just focus on the system. I just thought that was really interesting. He said it was very obvious, the difference in focus over in China among the traders.

Darren: I think that might have something to do with their cultural background as well, and their upbringing would have been very different to traders in the west. I think they kind of grew up in China where, certain things are kind of laid out for them in a very systematic way. Like, they're expected to get married very young, and a husband's expected to have a house and a car. Their cultural background from when they were a child is very different. That probably makes indicator trading very appealing to them. The thing is, indicator trading or not, it doesn't really make any difference. It's really if you believe in it, and you don't make mistakes, then that's a bigger factor I think. I think we've just got to the point in the west now, where we don't believe in them so much.

Doubts creep in, and perhaps you make mistakes when we trade those sort of systems now.

Walter: I wonder sometimes how far it actually has come. In my world, because the traders I come into contact to are largely either just done with indicators, and they've decided they're just not worth it anymore. Or, they've gone through all these indicators and they've burned through them, and they're just ready to quit. "I don't want to deal with these anymore." Or, they're just new to trading, and this idea of price action trading appeals to them. I wonder if it's just the world that I live in, and that indicators are still very important to traders in other corners of the markets? I don't know, and just the other day I saw ... You know who Tom DeMark is, you've heard of Tom DeMark?

Darren: I do, yeah.

Walter: Yeah. They had him on Bloomberg or something, and he was talking about ... I don't typically watch Bloomberg a lot ... But he was on Bloomberg or one of those, and he was talking about how the bottom hasn't come yet, and we know that it's this and that. He's got all these proprietary indicators, and these funds that pay him for his indicators right? I mean, that's his whole business, is based on selling very expensive indicators. I thought, "Wow, it's just amazing to me that he's still chugging along, and that people are still happy to ..." It's almost like they're giving the burden to someone else, so that when things go wrong and the trades don't go well, they can just blame someone else right? Blame the indicator or blame the service.

Darren: Possibly. Or, is it just the case of the technical element really isn't that important. It's your data, and also what the market does. I suppose really, if you manage your stop and your exit point right, then really, your point of entry doesn't matter. Maybe they've just got the right data, that with those indicators you really need to go for a big risk reward, and it just so happens that the market is moving in that sort of fashion at that time as well, and it becomes successful. How much are they just being bloody lucky as well? All those things are a factor.

Walter: Absolutely. This brings me to an idea. What would you say, like if you were to come up with the simplest way to trade, and you can't really use the random entry okay? Let's just set the rules up. How would you set up an extremely simple, robust system to capture profits, without using the coin flip entry? Is there a way that you could distill a system down into a one line thing, and just use that?

Darren: The basis of most of my trading is buy low and sell high, okay? Then you obviously need some indication that you've picked the right low, so you wait for price action to close up with whatever timeframe you're trading, okay? Then, we haven't got the clout to move the market, so we want to see momentum as well. Then you use a breakout of that bar, and you just trade from low to high, and whether you support a resistance to be your low or high or pivots, or just the high and low of the period

you're trading. In other words, you do exactly what they tell you you shouldn't do, you pick tops and bottoms.

Walter: Yeah, that's awesome. Yeah, yeah, and it works.

Darren: Yeah, and then obviously, you need to make a decision, are you going to let all of these run and go for a big risk to reward? Or, are you going to manage it aggressively, and try and take as many winners as you can, and just have a small risk to reward?

Walter: Yeah, yeah, exactly. You need to decide which camp you're in. I would do a very similar thing. What I would do, is I would say, "Look, you just need to find the cycle in the market, okay?" That might be as simple as putting the line chart on your chart, and looking at the weekly or monthly chart, right? What you want to see is, "Are we cycling up, or are we cycling down?" Then just wait for a big, giant candle to tell you, if we're cycling up, and you see the market moving up, you just wait for that big, giant, red candle on the chart to tell you that you're ready to start cycling down. Then put your sell order below that giant candle. It's just as simple as that.

If someone came to me and said, "Look, I know all this stuff doesn't matter. Just tell me a way that I can use ..." I would say, "Pull up the monthly chart, put the line chart on. Wait for a big, red candle at the top, or big, green candle at the bottom, and just do that. Just trade off of that." I don't know, I've never tested it, but I'm going to now. I think this is something that, for those people who really want simple, it makes sense. It's very similar I suppose, to what you just said, but I think it's something that people can ... They don't need the Tom DeMark trend line.

Darren: I read an article in The Guardian about why we believe in religion and Gods and aliens, and all this stuff that's not proven. Essentially, we have to have something to believe in. I've got a quote by the guy here. It was Louis Walpach. Have you heard of him, Louis Walpach?

Walter: No, no, no.

Darren: Anyway, he said, "Few people are content to accept that blind chance plays a large part in their lives. They seek reasons, even when these do not exist." I think that so sums up what most people try and put into their trading, where it's not really necessary. They want the reason why it's going down. There needs to be some sort of story attached to that. Like, there is a trend line there or ... What we do is we tell traders is, "We can't time the markets. We haven't got the clout that the big banks and the funds, and these ...have got, so really, we need to sort of jump on their movements." If price is high and it starts selling off, then what more reason do you need then to take a risk on a trade?

Walter: Yeah, yeah. Even the atheists believe in something. They believe in humanity, or the ability for humans to overcome problems or something. There's going to be something there. In the ancient cultures, we have these ideas of story and story telling us why things are the way they are. These myths and legends and things like that. I think there's a lot about humans that sort of crave this reasoning. It reminds me of the old random number tests that they do, where they give people a table of random numbers and they say, "What do you see here?", and people come up with patterns in these random numbers.

That's part of being human, but I suppose there isn't really any reason to fight that, is there? I mean, if that's the way that we think and the way that we interpret things in the world, information, there's really no reason to fight that. I suppose that's kind of why you've set up your trading system the way you have. You've essentially admitted that what you're using doesn't really matter, but you've got to use something to keep you disciplined. Is that fair enough?

Darren: Yeah, and use something that's simple, and is not going to have second guessing. I see so many where, you've got to like, make judgments on five different things. At the meantime, your time is ticking. You need to decide if you're placing this entry or not. Right at that moment, you're having to deal with all of this data, and decide whether it's right or not. Whereas if you simply that process, then you're less likely to make mistakes. Then you'll be regretting that you didn't take the trade that wins, and then you'll be questioning how you dealt with the data on the trades that lose. Whereas really, we can't control those. We can't really control those things.

Walter: Yeah, yeah. My trading partner and I, we used to trade the three minute charts, and we had a 17-point checklist that we'd have to check off before we took a trade. The problem with that of course, is by the time you had a signal and you went to the checklist, another candle had printed.

Darren: Yeah.

Walter: You're in trouble aren't you?

Darren: Yeah. I wanted to ask you something this week as well, about money management, okay? This is like a debate I'm having with some traders at that moment. The idea is, let's say you trade intraday, so you trade through the week. This idea is sort of based on your data that you've got. You find a target for the week. Let's say your target is 100 pips, okay? Then at any point in that week, if you hit your target, then you stop trading for the week. The idea being is that, based on your data you nearly always hit this target, okay?

Obviously, there'll be some weeks that you hit it, and would have continued trading, and that would end up as a losing week. Then obviously, you just do that week in, week out. It's obviously got to be a target that you consistently hit. Then you just slowly grow your account, and you compound your money, and that's how you make your money. The opinion's kind of split on this. I'm in favor of it. I think it's a good idea, and obviously, your data needs to be good, but that goes for anything really. Yeah, I just interested in your opinion. What do you think about it?

Walter: Yeah, that's interesting. I think in theory it sounds good, but in practice it usually is difficult to implement. What you're saying is that, the trader sets a focus essentially on returns, right? There's a set percentage of returns that the trader's looking for each week, and once you've achieved that it's, "Okay, job well done. Let's close her down for the week, and live to fight another week." Right? Essentially?

Darren: Yeah, and going beyond that, when you're trading intraday, it means that you have long breaks in between. You can still trade short time frames that require you to be at the charts, but if you hit your target Wednesday, then you have Thursday and Friday off. If you hit target Monday, then you have the rest of the week off. You work on being consistent instead.

Walter: Yeah, I suggest, for traders who trade like this, I suggest a different approach. What I suggest is, instead of setting the target based on percentage, return or pips or whatever, I think that you should have a set number of bullets in your gun. It's kind of the same thing, but it's not performance based. It's actually trade based. What happens is, you hold onto these trades, because you have X number of trades per day, X number of trades per week. Once you shoot all your bullets, that's it, you're done for the week. What that means is, you might end up with the situation that you talked about, where you might actually achieve your goal on Wednesday, but you still have a few more bullets.

If you want to take them, if you've got a couple more bullets for Thursday and Friday, you might use those on Thursday and Friday if you want. Once you use them ... And let's say they're both losers ... You're done. You can't take any more for the week, and you're off. If you have a whole bunch of trades that set up on Wednesday, maybe you take 90 percent of your trades ... If your bullets are all locked in and loaded and you shoot them on Wednesday ... Then that means that you've only got one more trade for the rest of the week, or something like that. What this enables you to do, it sounds like the assumption here is that you're trading with profit targets, and you're not using trailing exits. Is that fair to say?

Darren: I'm not really using trailing exits, no. It struck me that trading certain instruments, in a certain fashion, you'll nearly always ... Based on the data that I've received ... I'd always kind of reach a certain profit target. I just wondered whether it would just kind

of be a nice way to trade, because you get that break from trading. It takes some time to get used to the concept, but if you just put in consistently winning weeks, it'd feel great trading that way as well.

Walter: Yeah, I agree. I like the idea of the breaks. You can still get the breaks, if you have X number of bullets per week or per day. This is the problem I have with this, is that people, they'll do a bunch of back testing, and they'll say, "Okay, I can make 100 pips on average a week. So, after I get 100 pips, I'll just quit." The problem with that is, it's like having a system where you have a profit target, because you cap your winners. What that means is, the average pips per week, has to be lower than 100 pips a week, because you're going to have some weeks where you don't do 100 pips, right?

What that means is, instead of averaging 100 pips a week ... Which was your goal in the first place, because you knew based on your back testing that you could do that ... You're always going to have some outlying weeks that aren't as good, and because you don't have any outlying weeks that are better than 100 pips to balance that out, you end up with a lower than expected return per week. At least that's what I've seen. I know it makes sense in theory, but to me, the focus is better placed if you just focus on the archer that has only so many arrows. If you can't hit the target with this arrow, then you've got one more arrow.

You're focusing so much on your arrows or your bullets, and not so much on the target, because that return ... It's true, that your average will be 100 pips per week, but you've got to make 100 pips every single week, right? You've got to spend 50 weeks a year hitting your 100 pips. If you can easily do that, then of course your average will be that. I think, typically what happens is we do have sub-par weeks, and when you cut that off at 100 pips, then what ends up happening is maybe you average 88 pips a week or something like that, which is fine. If you're okay with that, that's fine. If that's really your goal.

You say, "Really what I want to do is average 88 pips a week, so I'll have 100 pips as my goal, and I'll cut myself off there. That allows me to have seven bad weeks a year or whatever." Something like that. My approach is more about the number of bullets, rather than the performance base, but I understand why people do that, and I think you're right. I think the real beauty in what you're talking about is, it enables you to take that time off. Some people are going to kick and scream and not want to do that, but that's going to really help you when you come to your charts again on Monday, Tuesday. After you've spent Thursday, Friday, Saturday, Sunday off. That's going to really help, to come to those charts fresh, if you're able to do that.

Darren: Yeah. I think it obviously depends on how you trade. I used to dread the weekend, and be really excited about the start of the trading week. Now, I long for the weekend. Okay, just got to get through Friday, and then the markets are closed and I can switch off. I read a lot of Denise.... stuff, and she coaches a lot of really successful traders.

The thing that strikes me is that, those psychological pressures of trading, they never really go away, you just learn better to deal with them.

It's quite surprising when she recounts stories of traders coming to them, how so many people can be really, really successful for a long time, and just have a bad period, and it really affect them. My main sort of thought with this is, how can you ... And with my trading strategy at the moment ... How can you reduce those pressures as much as possible, and still trade consistently? I think that's important.

Walter: I think you've nailed it. I mean, what you've just said here ... For those people that missed it ... This is really the key here, what you're talking about. The reason why, when you first start trading that you can't wait to get through the weekend and get to the beginning of the week, is because there really is some sort of mystery in what you're doing. When you first start trading, it's kind of like playing roulette. You never know what's going to happen right?

Now, as you become more seasoned as a trader and you've seen a lot of things happen, you've gone through market cycles, in many different systems, what happens is, it gets kind of boring. It is kind of like work. It's not as exciting as it was when you first started trading, and you read every trading book there was, and you couldn't wait to quit your job. That sort of thing happens, but now you get to this state where, as you're saying with the trading coaches, they realize this. They recognize that the real gains in trading are made when you, start managing yourself. Everything becomes about managing yourself, including your expectations, your limitations, your subliminal blocks. All of these things that are really determining what you do every day, including your trading. These become the focus, right?

The really special traders recognize that the gains are going to be made in removing the blocks, and creating more flow, and becoming more ... How do you say it? ... The best way to explain it is, I was talking to a trader once ... And I didn't realize it at the time ... But he was in an absolute horrendous draw down, okay? Speaking to him, I had no clue, and I didn't even know until later, that what he was going through was, essentially the worst draw down of his life, right? This was happening, but speaking to him, I wouldn't have had any idea that that was the case. In fact, I would've thought that he was going quite well that month and that year, but he wasn't. That's kind of the goal, I guess, is to get to the point where you sort of let the numbers go.

As the casino let's people come in and take money out, they know that, in the long run, they're going to make money. You need to get to this point as a trader where you're managing your emotions. You're managing your expectations, and you're really kind of setting up the psychological environment so that, your emotions work with your trading, rather than against it. My strong belief, is that every single trader out there will eventually ... If they play the game long enough ... They'll get to that point, where this is the real focus of their trading. It's almost like, it has nothing to do with

your trading system, because it has everything to do with you, and how you implement your system.

I think that the coaches ... Like you say, like Denise and those coaches out there that deal with traders ... That's really what their focus is on, it's giving the traders tools and strategies, and ways of approaching this, so that they don't get in the way of their own success, and they don't block themselves from achieving what's possible. That's my approach, and that's kind of how I try and think of this. Is, it's really now less a gain about setting up the perfect system, and more about improving the way that I trade the system. It's more about improving me and removing my blocks, and the things that are holding me back, and the things that are cyclical and destructive, and getting those removed, rather than focusing on improving the system. If that makes any sense.

Darren: Yeah. It's kind of one of the hardest things to learn, isn't it? I don't think there's any way of accelerating that learning really, other than actually sort of going through it yourself. I think you can read all of the books and take the courses, but that sort of element really, I think takes time. I'm always trying to think of ways of making that point concisely to people, who are starting out in trading if they ask me advice. I just try and make it really clear to them, but it's a difficult thing to teach, and it's difficult to learn as well. I think it takes a lot of time.

Walter: Yeah, absolutely, and self-reflection, and you have to be able to dig things out that aren't very nice. It really is kind of like figuring out your faults, and determining where you fall short. That's what trading eventually present you with. It will present you your difficulties, and your shortcomings. That's why I always chuckle when people say to me, they say, "Oh, so you did a PhD in psychology, but you're not using that anymore.", or, "You got into this trading thing." That's always a little bit funny to me. It just shows you that people who don't understand trading, don't really get what it's all about. It's really all about the market presenting you with these ugly warts that are part of you, and you have to decide what you're going to do about that. You get to decide now, "What am I going to do."

Darren: I think before I started trading I was pretty much perfect, and now I realize how wrong I was.

Walter: Yep, isn't that the truth? Yeah. Is there anything else you want to add to this? I think that we've kind of come full circle here, back into, really what it comes down to is it's really about you and not the system.

Darren: Yeah, I think we've covered it today Walter. It's good to have you back, and I want to talk about priming next week. I don't know if you've heard of priming and ...

Walter: Sounds good.

Darren: Yeah, and hopefully I'll have another good week traded.

Walter: All right, excellent Darren. We'll see you next week.

Darren: Okay, cheers Walter. Bye.