

2 TRADERS

[EP114: Signs That “You Got It” \(Part 2 of 2\)](#)

Walter: You can be a very introverted person and end up quite extroverted later in life. You can be very disorganized and become organized. So it can change for sure...

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: We're back with Part Two. Darren is going to talk about the importance of pain in your trading in Part Two. We'll also talk about the Lesson of the 43 Million Trades and what this means for your trading.

We'll get in to Big Five and why an erratic trader have an advantage over other traders in the markets and you'll see why traders diversify. Darren talks about this in today's session.

And, you'll get the easiest, one of the easiest ways to have an edge in your trading. All of these and more in this episode of the Two Traders Podcast.

... Relating it to the idea that the Mario Andretti quote which was, "If everything is under control, you're not going fast enough". How do you think that relates to what you've just said, like in terms of your approach as a trader or fund manager?

Should we be pushing the limits? Because I've noticed that that when you push it to the edge where you're a little bit uncomfortable, that's when the most growth happens. But, is that what we should be doing as traders like this fund manager should they really be looking at a different approach?

Darren: I think we should but at the same time you just need to still have some control over your risk. You know you want to be pushing it, you want to be allowed to have some drawdowns.

You want to have some pain in there because that's where the rewards are going to be found but, at the same time, you don't want to be able to blow up your account. It's quite a tricky little balance in that, isn't it?

If you've got 200 Million to trade with then, okay you know you're making 3% a year is probably fine but if you're trading small accounts and you want to make a decent return then you do have to push it.

That feeling of comfort, I think generally means that you're not taking much risk at all so if you are feeling completely comfortable with everything then you've got to expect low returns.

I think, on a kind of deeper level as well, you can fall in the trap of say taking exits or money management strategy that just feels really easy. That invariably means that you know you might be blunt in any edge that you have.

Walter: Yeah, that's right.

Darren: I mean, it's amazing how little distance to trade has to travel before it feels like it's a good time to get out.

Walter: Yeah, I know. It's like that study that you posted in the Naked Forex Now about the 43 Million trades that the broker looked at in. That's exactly how most retail forex traders trade. They take fairly quick profits and they let their losers run just far enough to ensure that they are not profitable.

Darren: Yeah. And, I think that what most of them are looking for, they're not looking necessarily at probabilities. They are looking at what feels easy to me. What feels comfortable to me. Seventy percent win rate, 1 to 1 signs, and feel really comfortable and a lot of people go up after that. Certainly, some people make really good returns doing that but it's not necessarily easy to maintain over a long period of time.

Walter: Yeah, it's true. But, it feels good so as you ratch it down that win rate and increase your reward to risk ratio, it gets more and more uncomfortable for the average trader I think. I wonder, Darren, if you think that there might be something related to personality in this.

Depending on how... Like for example in Psychology, there's the Big 5 which is the 5 personality dimensions or whatever. Whether or not you agree with it, the basic idea here is that most people fall in the continuum between being very open to new experiences or being really cautious.

The second dimension is conscientiousness. They are very, very organized or they're completely careless. The third one is extroverts. They're outgoing and energetic or they're really quite reserved and introverted. The fourth one is agreeableness. Are they friendly and compassionate or they're challenging and detached?

Now, that's the one that I believe would be related to whether or not you will be more or less likely to embrace the trading strategy that had a lower win rate. You know what I mean?

I think that people who might be lower on agreeableness, they are sort of detached and dispassionate, they might be the type of trader that might be better suited for that. I don't know.

The last dimension I just noticed here, I'll just note here just to round it out is Neuroticism which is -- and this also might be the dimension, I could be wrong. It might be more Neuroticism which is on one side you've got people who are very nervous and sensitive and on the other end, you have people who are secure and confident.

Maybe it is those people that are low in Neuroticism and very confident that would be more likely to embrace the low-win rate, high-reward to risk ratio trading strategy. What are your thoughts?

Darren: I feel slightly out of my depth. The thing that instantly jumps to mind here are, are they straight fixed? Are they fixed traits of people have?

Walter: No, they used to think so. No, they used to say that personality was fixed but now they say it's pretty clear that it's not.

Darren: Yeah. I think all of those things can affect your trading but for me, the interesting thing would be, if you can learn to become better, the traits will help.

Walter: Right. To me, it could go either way. If you're low on Neuroticism which means you're very secure and confident and you're not very nervous and sensitive. You're sort of, if you're not sensitive and you're very confident, that could be the type of trader like Michael Burry who takes a position and says, "I don't care what anyone says".

He could be low in agreeableness too. He's not a type of person that would necessarily agree with everything you say. And so, that might be the type of trader who's best suited sitting through the drawdowns and coming out the other side and able to take a strategy that doesn't win very often and just keep riding it.

I could be wrong but that's just my first thought here is that, if we are to look at something and say, "Maybe it's this. Maybe that's what we're looking at here". But, it's a fair point. These things change overtime. You can be a very introverted person and end up quite extroverted later in life. You can be very disorganized and become organized.

Darren: Yeah.

Walter: It can change for sure.

Darren: Yeah, I know. I mean I know you love to test me on these things. I always feel slightly down my depth when talking about them but I think, one the dangers, looking at your personality and then building your trading strategy on it is, I wonder how good we are at judging our own personality.

Generally, if you ask someone if they are on the top 5, if you ask the people if they're on the top 5%, then they're all going to say they're on the top 5%. If you ask someone whether they are introvert or extrovert, are they being honest with whether they really are introvert or not. Do you see what I mean?

Walter: Yeah.

Darren: You need somebody else to evaluate your personality really, don't you?

Walter: Yeah, exactly.

Darren: You need some sort of test for it.

Walter: Yeah. I will put a **link in for the show notes** so you guys can take the big 5 tests if you're just curious to see. You guys can do that online but yeah, I agree. I agree. You're right. It's hard to... It's definitely the case where like you say, you ask a room of people how many of you are above average intelligence and 85% of the room will say they are above when really we know it's probably about half, right?

Darren: Yeah.

Walter: Yeah, it's funny. We we're talking about have you made it? Do you think that just the act of saying, "You know what I think I've made it"? Does that mean that already you're in trouble?

Darren: I don't know because you kind of have to have the feeling that you have made it or at least you're on the road to making it because you need some sort of self-confidence to trade anyway.

I mean, if you think that you haven't got it at all then, why are you still putting your money on the line everyday? It's a difficult one to gauge really and I suppose if you just journal your results and see how you're doing, if you're improving then I suppose that's the clearest way of telling if you're on the way to making it.

Walter: Yeah. I mean, it's one of those things like the only reason I mentioned that is sometimes people think, "Oh well, you know things are going really well now." There's bound to be a reversion to the mean or whatever. Things are going to turn around soon."

I think, we've spoken before about gambling and how it relates to trading. How it seems to this sports gambling podcast the other day. The two guys that do it are on the real role.

The one guy is a professional gambler and the other guy is just an ex-athlete. The athlete asked the gambler, the professional gambler. He said, "So, you know we are in a real role the last couple of weeks, should be pulling back on our positions?"

The gambler is like, "No, just roll with it." And so now, this week the podcast came out and they were completely slaughtered last week. You know what I mean? Totally took a hit.

They sort of resorted back which I guess is to be expected but that's what makes me think about as a trader, it's like one of those things that you feel like, "Okay. Yes, I've got it. I've got it." And at that moment I feel like, "I wonder if it's really the feeling that you've got it"

The feeling that you've made it, that might be a red flag. It's sort of like, you know that this trend is never going to end and that's usually like, "Okay, the trend is going to start fizzling out now."

Darren: Yeah. There's a sort of an arrow of overconfidence in proclaiming that you've got it and you know why the traders diversify. Traders have got it, why they diversify and why the people spread their investment around and invest in property and some savings and some pensions.

Why do they'll do that? I think there is a danger of just then being overconfident and that's where you realize that you really didn't have it because you're blowing up your account. It's a difficult balance in that to get.

Walter: Yeah, exactly.

Darren: Yeah. I mean, you've got to be happy with your progress, haven't you? For me, I tend to listen now to people who have been around a long time and who've, probably seeing it all much more than some new trader on a forum who's like all of a sudden doing really well.

I think I'd just try and align my expectations with what those traders with real longevity of being true. I kind of view that as my gauge of whether I'm on the right path to getting there or not.

Walter: Yeah, I agree. I think finding the wisdom from those who've been doing it for a long time helps. I'm a big fan of mentors and the other thing is comparing to yourself. Like you said, if you have a journal, you can go back and see what was I doing a year ago, two years ago, five years ago.

You can compare your progress not to somebody else. Not trying to be as good as someone else or whatever but you're just looking at yourself and saying, "Okay now, this is what I used to do and now I'm doing this."

It's an easy way to bag some wins especially if you're self-aware and you're pretty good at that then it's a great place and journaling will help put that for sure. It's a great place to see your progress and basically it's rewarding to have that progress to be able to point to it.

If I had to say Darren, as a trader... I've got this trader here and he's been trading for two and a half years. He's been making money for the last year and a half consistently, and he feels like he's made it. Like, he's got it all figured out, he knows his strategies are going to work and that sort of thing. What would your advice be for him? He's fairly new, really. I mean he's not been trading that long, two and a half years.

Darren: Oh, I hate giving traders advise.

Walter: I guess like what are some of the things that you had? Like, what are some of the barriers that you had to overcome or things that croptop for you?

Darren: I think for me, it was a case of not only understanding probabilities but then putting them into action.

Walter: How do you put probabilities into action? So, you understand okay, there is a probability of this happening or that happening, but how do you put that into action in terms of trading?

Darren: For me, the biggest realization was that one of the easiest ways to have edge was to have a large risk/reward. And then, I'd develop strategies that had a large risk/reward but then I wouldn't execute them very well.

When I went for a drawdown period or something, I change the parameters of the money management or something and I wouldn't actually execute it even though I knew where my edge lied psychologically I find it hard to execute it. When you can sync those two up then you're on the right path. Did I answer the question then?

Walter: Yeah. Basically, you realize a couple of things. You realize that your edge came from having a high reward to risk ratio. Basically, not anything other than that. Like, that was the focus and that you have to make sure that you're executing basically.

Darren: Yeah.

Walter: Yeah. And then, I think the reading between the lines, the listeners here can grab something from this which is what we are drawn to naturally is usually the thing that's going to lose you money. Would you agree with that?

Darren: Yeah. And I think that's statistically proven.

Walter: Yeah. Not only do you agree but it's proven. Yes. Okay.

Darren: Yeah.

Walter: Yeah. Well, we've got you on one side of the fence on that one. Okay, cool. Agreed. We've seen the 43 million trades that broker had posted up there on that that are posted in the show notes for everyone to read but the idea here is that if you're doing something because it's comfortable and you think this is what you should be doing as a trader, that's probably the thing that's going to lose your money.

The counter to that obviously is that if there is something that feels really uncomfortable which is for example winning 22% of the time or you know waiting for a 10 to 1 reward to risk ratio before you cash out that trade. Those sorts of things are really uncomfortable for most people. Not everyone but most people.

What's really comfortable? Well, Martingale. That's really comfortable. You've got a loser, go double up on the next one. You got another loser, double up on that one and keep doing that until you've finally got a winner.

That's like the easiest thing to do. Why? Because you're going to get it all back. If I don't get it back this next trade, I'll get it back the trade after that. As a rule, I think traders, you've got to fight that. You've got to fight the things that make sense.

The things that feel good and when you've made it, you have to be careful because you probably feel like you've gone through all that stuff and you've made it out to their side and now you're making money.

Well, now there's going to be new challenges. You're going to be tempted by new systems. You're going to be tempted by buying in to your own stock and deciding, "Okay, I'm so good at this. I should up the risk." You know what I mean?

All these things come up now, that you're on the other side as a trader. It's not just going through the normal process of becoming profitable but now on the other side you've got to deal with all these other stuff.

To sum up, that's basically what we want to get across over these last couple of episodes. Is that, to me, when you've made it or what you define success is, that's going to change.

It's going to change over time. It's going to change depending on where you are as a trader. I think, Darren, it's basically saying the same thing which is essentially what's going to happen over time is you're going to realize specific things that you need to pay attention to.

For Darren, it was things like probabilities and becoming self-aware and understanding what you're doing. That's the kind of things that's probably going to help you out here. Even though it might seem like you're going to be in this nirvana stage as a trader eventually and everything's going to fall into place, that may not necessarily be the case.

Darren: Yeah, I agree. When you start out, if you ask a trader starting out how do you know when you've got it and you ask a trader the same trader five years later, you're probably going to get a very different answer. If you get the same answer, then he probably hasn't got it at all. You learn as you go.

Walter: Exactly. New challenges. Cool. Well, thanks so much for your time, Darren. I really appreciate it. Will catch you on the next episode.

Darren: Thanks, Walter. See you then.