EP118: Best Trading Style for You

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**Walter:** You really need to look at this from a longevity point of view. I don't know any traders who've traded the lower time frames and not burned out. The only way you can do it, I believe, is you need to take breaks...

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

**Walter:** Welcome to the Two Traders Podcast. It's Walter here and I have Darren. Hello, Darren.

**Darren:** Good afternoon, Walter.

**Walter:** So, we have a question from a trader here who says that his biggest challenge -- I don't know if he's a "he". I'm just going to use "he". He says, "My biggest challenge is, is daily chart trading best for me or I'm not so emotionally involved in the trade? Or, should I look to the lower time frames with lots of actions, adrenalin, and fast decision-making? Which trading style best suits me? "

**Darren:** Am I going first on this?

**Walter:** And also, I'll just say here that as a sort of a preface to the question, he says he always gets sucked into the M5 and the M15 charts because there is action. He's wondering, "Should I block this out?" He says, "Should I block these time frames out of my MetaTrader?"

What he's saying is, "I've heard you talk about it." I talked a lot about the gambling part of your brain and how that's activated when you trade the lower time frames. I'm not saying that you should necessarily throw that away and just trade weeklys or whatever or monthlies.

All I'm saying is that there's a certain type of person -- and I think you know who you are. When you've run into this problem where when you're seating in front of the charts, you keep pressing the buttons. You keep getting rewarded by taking those M5 charts and even if you're in a big hole, you keep doing it.

It's the same kind of a guy who will sit in front of the video poker machine and keep gambling away all of his pot. The question really is, is that you? Because if that's you and you still want to trade, I think you need to move to a higher time frame.

That's all I'm saying because in higher time frame, you're using your frontal lobes. You're planning things out and that happens in slow motion. You're not under pressure. It's typically a lot easier because it sorts of unfolds slowly.

The bad news is you have to take more of those trades to get the same effect so you don't run through your statistics as fast as you would if you were trading the M5 charts. Because M5 charts, maybe I take 20, 30 trades a week whereas the D1 charts, maybe I take 4 or 5 trades a week. That's the drawback for that. What are your thoughts, Darren?

**Darren:** Yeah. I'm with you there, Walter. I think the mistake that a lot of people make is they assume that they can remove negative aspects of trading by shifting the goalposts. The problem is so you've got the M15 chart which is fast in acton, but the downside to that is that you can lock up your losses much more quickly.

You say, "Okay I'll switch to the D1 time frame." You switch to the D1 time frame, that's sold out with. Now, you have to wait a really long time to get to your profit target. What I'm trying to say is just shifting time frames is not going to remove the negative aspects.

It's just going to make different aspects negative. For me, the answer really is to get in this mindset where you accept that there aren't negative aspects of however you trade; and dealing with how you deal with those negative aspects is what your focus should be on.

Unfortunately, what we do is we just try to do something simple like change the time frame. Like I've said that all it does is move the goalposts. If you often doubt with your reaction to negative aspects of trading, you're just going to come up against a brick wall again.

That is not denying the fact that certain people will be more suited to a slower time frame where they have to make less decisions and they can deal with the negative aspect of that which is waiting longer to reach profit targets and have a slower or less volatility in the results.

I think you do need to pick the time frame that suits you. But, more importantly you've got to appreciate that wherever you move, there's going to be a negative aspect. They're just slightly different and they offer slightly different psychological pressures to deal with.

**Walter:** Yeah. That's a great way of looking at it because if you're trading lower time frames, I would argue… And I have argued that while it's possible to get out of a losing position before it hits your stop loss, it's much less likely than if you have a daily chart position.

If I have a daily chart position... And I'm just arguing here that you're the type of trader that doesn't just put the trade in and say, "Well, it's either going to stop me out or it's not." That sort of thing.

If that's the way you trade, then that's fair enough. But, some traders like to reassess and go, "Well we've had three more candles print here and what is this telling me? Is it telling me that my trade idea is still a good idea or is it telling me that I should probably rethink this, tighten up the stop or something like that?"

I would argue that one of the negatives of lower time frame trading is the percentage of trades that are likely to hit the full stop up is greater. You're probably more likely to get slipped than you would.

Exiting on a daily chart trade just because your stop loss is so much closer. But, as you say, the negatives to higher time frame trading -- like daily chart trading, for example -- are that your trade takes a long time to unfold.

What does that mean? It means that you're not going to compound your account as quickly. More likely that you're going to see the result, win or lose, of your M5 chart trade much more quickly than you would your D1 chart trade. That's just kind of obvious so you don't have as many. It's much slower.

To me, that's positive because when you first start trading, you wanted to be slow. You don't want to be pressured. You don't want to feel like you've got to do something now. When traders are trading on the lower time frames, it takes a very special type of person to be able to go, "Okay, you know I'm under control here." You know what I mean?

Either they're not feeling too pressured because they know exactly what to do, they've planned it out beforehand and they execute it under the gun. But, a lot of traders aren't that way. They feel pressured. They just feel like they have to react instead of execute the plan.

**Darren:** Yeah. I find another issue with the high time frame is waiting for setups, if that is a problem for you. For me, if I know I've got to wait a whole day before I'm going to get a setup. For me, that just feels like surely I'm going to miss out on the opportunity of today. I mean, that's a whole day of trading that I've wasted.

It might be that your kind of personality needs that more action and you know the great thing is you really can design the board you want to play on. You can make the game whatever game you want it to be.

If you want to trade the daily moves -- let's say, you're like me. You're impatient waiting for setups. Well, look for your daily moves that you want to trade and then go to a lower time frame to look for entries into that move.

Then, there's obviously the negative side to that as you might have to take 2, 3 or 4 bites of the cherry to get into that move. You have to appreciate that you're going to have a slightly lower win rate.

But, at the same time, you're going to be able to get in with a smaller stop loss and you can aim for a daily trend, a daily entry would probably have given you 3 to 1. You could go down and enter on a faster time frame and get a 10 to 1, or a 5 to 1 trade out of that.

You can really manipulate it to be exactly how you want it to be. Then, it's a case of testing it and if it tests positively. Then, it's a case of executing it. I don't think we should restrict ourselves to "I've got to be a low time frame or high time frame trader."

Time frames only exists in someone saying, "Okay, I'm going to split this price movement up into 15-minute sections." Doesn't actually mean anything. There's no magic going on there. Someone's just decided to cut them up every 15 minutes. The actual movement of price is exactly the same on all the time frames.

**Walter:** Yeah. Which is why we should all be using point and figure charts, right?

**Darren:** Well, we should. But, there is an argument for the fact that some tools can be useful just to make us feel comfortable rather than actually giving us any technical advantage as well although a lot of trading is about feeling uncomfortable in doing stuff that's not natural. If it's something that you do everyday, it's quite acceptable to add some elements in there that just makes your day a little bit easier.

**Walter:** Yeah, right. When you're trading the 1 hour chart time frame, do you notice that at the end of the candle that it gets a little bit weird? Like the last 5-minutes of the hour?

**Darren:** I've heard this and I've heard it about the start of the month as well but to me, those are anomalies. I don't even want to go there.

**Walter:** Yeah. That doesn't surprise me that you would say that. I've just heard that from other scalpers who refuse to trade the last 5 minutes or 10 minutes or whatever it is of the 1-hour candle because you know it jumps around a bit. It is interesting.

A fascinating exercise for anyone listening to this is to screenshot the candle. You take a screenshot of the 1-hour candle every 10 minutes and just see how it changes; or the screenshot of the daily every four hours or whatever -- a screenshot of the 4-hour every half-hour or something like that -- and ask yourself what you think the candle's going to look like in the end. It's fascinating to me how different they are in the end. You just never know what it's going to end up looking like.

**Darren:** It wouldn't surprise me that at the end of a nice round of 1 hour, there's going to be more traders taking action than there would in the middle of the 1 hour. It's like big round numbers.

There's been a lot of research on big round numbers and they reckon the reason that there's so many orders placed. That is because it's just easier to say 1-13 than it's to say 1-13.685.

It's an easier round number and it's nice and clean, and psychologically, that feels more significant than with numbers in between. This is no surprise to me to find out that right at the end of the hour, everyone's going to suddenly burst into action. That's just not where I like to look for edges.

**Walter:** Right. I've heard similar things where the trader will say, "If it goes to 80", like 1-15-80, "Then it's going to go to 1-16." It's going to go that extra 20 pips or whatever. If it goes to 1-16 even, it's going to go to 1-16-20 or whatever. You hear things like that and it's crazy.

I've never tested it but it's one of those things where if it doesn't make sense to you, then it gets nothing. Unless it makes sense to you. I guess it's like full moon. It's a full moon. That means we hit the end of the Euro-cycle or whatever. I used to had that right.

I had mapped on. I was really into the Gann and everyone of course has their own ideas of what Gann was doing. I was looking at the new moon and I was convinced that the new moon would predict sort of these turning swing points in the Euro.

I mapped them on there for years. This is when the Euro had been around for three years as a tradable currency. Going back, I was convinced that I found something. But, if that doesn't make sense to you, if you think full moon or new moon or whatever, that's crazy. Then you're not even going to look at it but I guess that's the case for every trading system, really.

**Darren:** Yeah. Sure.

**Walter:** You just can't throw it away. Well, I'm not going to look at that. Why would I look at that? It doesn't make sense. Why would I do that? It can't be. It can't be true, right?

**Darren:** Yeah. I know you're a big advocate of higher time frames over lower time frames. Would you say that that's more psychological than it is and from an execution side of things? Would you say that this clearly, in technical analysis -- say for instance, support and resistance -- on the daily is more reliable than support and resistance on the 15-minute charts? Where's your gut lying on this or your belief on this?

**Walter:** I don't really look at it that way but this is what I think. I think that when my kid learns how to ride a bike, he's going to have training wheels on. When someone's learning how to trade, I think you should -- especially most traders I know, they've got a job and they're doing this on the side.

Well if that's the case... You need your sleep, you can't stay up all night after your job is over. You really need to look at this from a longevity point of view. I don't know any traders who've traded the lower time frames and not burned out. The only way you can do it, I believe, is you need to take breaks.

All the traders I know -- and I would include you Darren. I don't know if you're still doing the one-hour trading but the trades you trade and I can consider one-hour charts to be lower time frame.

Those traders, they're very good at when they're going to trade, they're very good at leaving the charts and not coming back for like months. You have to do that. You do. That's my belief. Like I said, I don't know any traders who have long term who've been able to do that.

You might find a scalper with, "Oh, I've been scalping on the 5-minute chart for 25 years." Yeah, how many days do you trade a week? Two. You know what I mean? That's what you see. That's what you see over the long also.

I think the reason why it makes sense to trade the lower time frames is because you're probably doing this. You have a job, you probably do not want to spend an extra 5 or 6 hours in front of the computer which is going to cut into your sleep. Obviously, it has to.

You probably don't want to. When you're new at this and when you first start trading, and trying to get it right, you probably don't want an extra pressure of operating on the edge of a knife where basically your lizard brain, your emotional brain, is ruling the rules in making the decisions for you.

You don't want that. What you want to do is plan it out. Put everything in a nice little tidy box and then wait for the market to do the right thing and then when it does that, you jump in.

I don't think you want to be reactive. I don't think you want to be cutting in to your sleep time. I think when you're trading, especially in the beginning, use the training wheels. That's what I think.

There's nothing wrong moving down the lower time frames later. I just think you need to get it right in the beginning. It's sort of like teaching your nephew how to drive. Do you give him the old Ford or do you say, "Well, yeah, you can take the Porsche out the first time you're driving." You don't do that right? It just doesn't make sense. That's how I see it.

**Darren:** Yeah. I think it's really good advise. I'm not convinced anybody is going to listen to it. I think he's going to take the Porsche out. If it's time for him he's going to take the Porsche.

If you're deciding what car is taken, then you know that that's a different issue but, yeah, I think psychologically you can learn. You can learn the same lesson on the daily time frame but with a lot less risk. At the same time, you could argue that it's all your mistakes early on that actually make you a trader in the end anyway.

It's very difficult to give people advice on things like time frames. I just try and always get people to think of the mindset regardless of how you trade. There's always going to be elements that are hard to deal with naturally and whatever time frame you end up trading on, that is a lesson that you're going to have to learn.

**Walter:** Yeah. And those are lessons that we remember, aren't they? The ones that we learn by ourselves, making our own mistakes. Not necessarily listening to what Ma and Pa had to say or what the old guy down the street said but just making our own mistakes. Sometimes, that's what it takes, I guess.

**Darren:** I think the idea in the question he said about, "Should I find some way of blocking off the lower time frame charts?" Things like that are actually really good idea. Not necessarily blocking off charts but he's clearly noticed something that is an issue for him. He's trying to put a plan in place to resolve that and that kind of thinking is really smart.

If you find that whenever you go on the forum -- the new hot thread makes you change your trading system or something like that -- then write a plan and to stop you doing that. It's about spotting where you're making your mistakes, what those mistakes are and then planning a way of dealing with that.

I think that the greatest way to improve rather than just continue doing what you are doing even if you're losing and it's not working out for you and you just keep banging away doing the same thing. You've got to step back. You've got to step back and assess where you're going wrong and plan ways of dealing with it.

**Walter:** Yeah, that's right. Do you find it sometimes like it's hard to see where you're going wrong? I mean is that where journaling and stuff like that, you think that's where the value comes in there?

**Darren:** Yeah, definitely. I think, initially, it is really hard to because I find it that you start to like yourself. What you do is you find ways of covering up your mistakes and you'll give them a reason, "Ah well, I didn't take that trade because of such and such" or, "I took profit early there because the news was coming out."

You'll find ways to kind of glossing over and covering up. You'll start reporting any wins instead of your losses. Really, that's the kind of trap that we all get into at a certain extent, I think.

**Walter:** Yeah, I agree. I think that's where, for me, the Forex Tester Backtesting Solution was invaluable because that's what I was doing when I would go back. I can scroll back on the MetaTrader charts and trying,figure out if this system would have made money.

You know you do a lot of that and you say, "Well, you know that's not really a valid signal because this happened or whatever." But, you've got advanced knowledge of what happens after that.

It just colors all of your back testing and your decision making when you know that trade wouldn't have worked out so you find reasons to discount that signal or whatever. Yeah, that's a big one.

**Darren:** Yeah. I say all the time that you have a rule set and you backtest it. And then, Monday morning you start trading and there'll be a news release and you say "Ah, I'm not going to take this one because of the news."

When if you backtest it, "No, no. It's not the news at all." Now, suddenly it's like a significant thing that you should be thinking about. Trading does that to you all the time. I don't think you ever get rid of that. You just get a little bit smarter at noticing when you're having those feelings and you don't act them out.

**Walter:** Yeah, it's so true. I've been thinking a lot about that because here's the thing, you're right. You do your backtesting. You have no idea when the interest rates announcements are when you're going through backtesting 2002 data and then of all a sudden, "Oh well, you know this announcements coming out today so I'm not going to take a trade and we've got the non-farm payroll tomorrow." And, "Ah, better not take a trade the day before that."

You do all these things differently and yet, you know you have this beautiful system that you developed and it was all based on not taking notice of any of that stuff. And yet, we can't help but do that. Over time, you get more and more aware of that.

What you have to fight is the real problem of having a situation where you take a trade, then the news comes out and it squashes your trade and you lose money. Then you say, "See, I shouldn't have done that." That's where I think you go wrong.

Trying to figure out the reason why that trade went bad when really what you should be saying is, "Oh! well that was an unlucky trade. It was and unlucky losing trade. That's part of the system." If you can do that, you're so much further ahead than most of the retail traders out there. If you can see it that way.

**Darren:** Yeah. I think you know this is why I favor lower win rate systems because once you get it ingrained that you can still make profit from not winning very often -- which takes time. You have to get through a few mental barriers of sticking to something for quite a long time.

But, once you got that ingrained, then it deals with all of those psychological issues as well. Because you're just like, "This is probably going to be a loser but this is all I need to do to make profit so it doesn't matter." You put an end and it could stop straight out and it sets up again. And again you're like, "It's probably going to be a loser but I'm going to stick in again."

Also, this kind of cumulative effect where because your winners are so much bigger than your losers, the actual significance of those losers tends to go down overtime as well to the point where they seem so small and insignificant.

The all other elements like execution in that certainly becomes a lot common. I'm not saying this is going to be like this for everyone but for me that's what I found. I find myself now wanting to stretch my targets further and further and further away.

Because as I do that, those losers, and the execution, everything... The losers become less significant, the execution becomes easier. Everything seems to get a lot calmer even if you're entering on a lower time frame.

**Walter:** Right, and isn't it interesting that one... When you've read those stories about the happiest country on Earth? Sometimes, I always chuckle because they have things like in Denmark, the Danes always win. They're "Oh, the happiest place on Earth". The secret is that they have low expectations and that's kind of like the style of trading you're talking about.

You just, "Ah, chances are this next trade's going to be a loser." I mean that's the most likely result. That's a low win rate strategy. And the other thing that's interesting about what you've just said is for the scalper, it's the opposite.

For the scalper, the scalper has to execute on point or he's dust. He's done. He's over. Contrast that with a high reward to risk ratio trader. It doesn't matter. The execution is not nearly as important. Why? Because, you have these huge ginormous winners and you're not relying on executing perfect little tiny winners all the time.

**Darren:** Yeah, I find that as well with my entries. I can be much more relaxed with my entry patterns. It doesn't need to fit in a perfect box because I know that the point from entry to a winning trade so much goes on in between there.

News releases, Asian Quiet Sessions here in Asia,  London Open says 2 or 3 of those in between. There's so much more information coming to the table before that entry point gets to an exit point. The actual precise moment I enter seems, "Well, I kind of not need to be in the right area. It looks pretty good. I'll take the trade."

**Walter:** Yeah, that's great. That's excellent. Ah, it's good stuff. Thanks, Darren, for today. I think in a roundabout way, we've said it's not that important the way that you approach your trading in terms of time frames. You have to define yourself and what's important to you and know your limitations.

I suppose that in the end, it may not be that critical that you look at it in terms of time frame. You might want to look at it in terms of risk/reward. We've spent the last ten minutes talking about this.

Once you get a hand on your risk/reward and what you're comfortable there, that defines what you're going to look for as a trader. If you're doing those short little quick profits, then you're going to have to be on point.

Like Darren says, if your trading for this really high reward to risk ratio system with low win rates then you can. It's not as critical. You can be a little bit more relaxed with the way that you approach it. That really takes the pressure off. That's a great point.

**Darren:** Yeah. I definitely agree. I don't think time frame is as important but I think the guy or girl who posted the question is looking in the right areas. They're looking at perhaps the mistakes they're making and they're looking at planning to resolve those issues. I think they'll get there.

**Walter:** Excellent! Well thanks for your time, Darren. We'll see you in the next episode. Thanks.

**Darren:** Ok, Walter. See you next meeting.

**Walter:** Bye.