

2 TRADERS

[EP122: The Idea of Prediction \(Part 2 of 2\)](#)

Darren: Because it's psychology, psychology, psychology...

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 back to the Two Traders Podcast. In Part Two, you're going to hear Darren and I dig into the trader that could never lose, the hive mind, the Psychology of predicting the future and what this means for traders. And including information about the trader who could never lose. All of these and more in today's Episode of the Two Traders Podcast.

...So, the other thing I want to talk about -- because I knew we would be ending up talking about this idea that the entry doesn't really matter. You can take random entries and as long as you're consistently applying a high reward to risk ratio -- basically, looking for big profits -- it can work out for you even though it's painful and a lot of traders don't want to do that.

Maybe a lot of traders don't want to take a really, really, really tiny small amount of risk because if you think about it, if you're going for 10R and you're going to have 77 losing trades in a row, you've really got to have a small amount at risk in order to keep going, I suppose. That's one way where you can make this work for you. That's one lesson here, right. If you're used to risking 2%, what if you risk a quarter of a percent?

Darren: Yeah. I think that's another one of the main barriers, that a lot of traders are starting out with small accounts and they want to grow them aggressively. We tend to risk more than is right for the system we're trading so you alter the system rather than altering the amount that you're risking.

I was having a dig around on the internet yesterday for this; because, I was thinking about this exact thing and about specifically greed, and how greed manifests itself in our trading. It's quite hard to get any really good information on it but I think that is something that is a problem as well. We want to make insane returns but were not prepared for the downsides of that.

Walter: Yeah. It's impatience, isn't it? "I want to leave my job. I want to grow this account to \$10 Million." I often ask traders why do you want to trade the H1 charts and they'll say, "Well, I need to have more trading opportunities." It literally comes down to that. They don't want to trade the H4 or the D1 or the W1. They want to trade the H1 because they want to have more trades.

And while it's true, it's true that you'll cycle through your statistics faster if you have more trades, but it's not the only way to do it. You can have more systems, you can have more markets. You don't have to necessarily do that.

And for those traders who'll have to sit there and watch it -- like this strategy that we are talking about here -- presumably the trader is either going to hit the 5R or the 10R target or it's going to get stopped out. It's either it hits the target or hits stop.

There isn't really much to watch or do there but for a lot of systems, traders feel they need to watch it, analyze it, and reassess and do something. In that case, you're stuck to the computer screen. Really, it's just another job.

When you first started trading, did you look at it at the I-need-to-predict-the-market point of view and slowly come around to this other style of trading?

Darren: Yeah, definitely. That's exactly what I did. I did multi-time frame, I had 4 charts for every instrument on 4 different time frames. I was working out the exact point where it was going to turn around, the exact point to get out again. That was all my work. Sunday night I did lose and then I went on to monthly, weekly, to work out what was going on.

The funny thing is I could go back to that system now and trade it really well because I just hold on to my winners a bit longer. Because, what happens is when you've had 2 losers on the trail, on the next one, your mind's starting to see things that aren't really there and it's saying, "Oh there's definitely some resistance there. That candle path is reversing here." Because fear increases, you start to see things in a different way.

I mean, if you study how we look at things and how we make our decisions, how the whole brain thing works, then it's fairly obvious that that approach has got a lot of flaws in it. Probably, an advantage to it is at least simplify it and or reduce the amount of what you're doing.

Walter: Yeah, I agree. We both agreed that it's true that you don't have to predict the markets to make money. It's not critical. It's a sign of your stage. When I first started to get into trading, all I really cared about was trying to crack the Gann Code.

Traders who've looked at W.D. Gann, this idea that he supposedly... There was a journalist from the New York Times who followed him around and over the course of a month or 5 weeks or something like that. All 27 trades he took and they all made money except one or something like that. He supposedly had cracked the harmonics of the universe.

I was really interested in that when I first started trading and really studying it before I came to the point of just looking for other things, just looking for other reasons. I think

you don't have to look at the market and say, "Well I think it's going to do this." Or, "I know the markets going to do this or whatever." I think you can still trade the market from a probabilistic point of view. So let's say that you're looking at a market and it's trending up.

You can say, "Well if it does this, if it pulls back like this and then does that I think it's going to keep going higher and it's going to keep trending up. The trend's intact. But, if it does this, well maybe I'll be looking for it to fall and maybe I'll short it. Maybe the trend is over." You can look at it from that point of view too. You don't have to throw your hands up and say well, just flip a coin or whatever. You don't have to do that. It doesn't have to be that extreme.

Just having that other side and just thinking, "Okay, I want to go long the Euro right here. Who's looking at the same chart thinking they want to go short? Who's on the other side of my trade here? What's going on?" I think that's really healthy to do.

Darren: I definitely think I agree with that. I think you can add an edge to your trading through some sort of analysis. The problem is that people think that that is the only thing and that is the most important thing and that is where the danger is. You have to accept that there is other important elements and some of them may be more important than that analysis. Its keeping it in context isn't it?

Walter: Exactly. Yeah that's right. We basically established if that's the case, you don't have to predict the markets to pull the money out of the markets. It's not that critical. However, I want to get some of your ideas on some of these things that have come up because I think they are fascinating. Like I said, I don't think they are critical to your arsenal as a trader. I do find them interesting and I wonder what the future holds. I've had a couple of exhibit's here.

Exhibit A, Darren, is that we have some data from Psychology that suggests that humans have some bit of premonition. There's this premonition out there where the classic example -- and **I can post some of these studies in the show notes for this episode** -- but the classic is where, someone's sitting in front of the computer, and they're shown some images. You might be shown an image like a bunny rabbit or a butterfly or some flowers. Then maybe you'll see some scary skeleton or a gun that looks like it's pointed at you or something like that.

And so, what they found is that people actually anticipate the scary image. Before they're shown the image, they seem to know physiologically that they're going to be presented with this scary image so while they are randomly interspersed in the slide deck, they seem to know before it happens.

Now, there's really no explanation for this other than to say it seems like somehow people are aware of something happening before it happens, which is fascinating. Right? What do you think about that?

Darren: I believe that I've seen similar research from neuroscientists that suggests that that's true.

Walter: Yeah. Does it mean that people are predicting the future because that's kind of the simplest explanation here. That people somehow are aware of what's going to happen before it happens.

Darren: Yes, possibly.

Walter: I'm just trying to get you to score them Darren.

Darren: Yeah, I know. I mean, can I make money out of it?

Walter: No, I'm not saying that. Its a separate issue. I'm totally with you. I'm just saying is there an element of humanness? Do we have something as humans that allow us to somehow anticipate the future? I'm not saying it's necessary. I'm not saying it's critical. I'm not saying it's something a trader must have. I'm just saying maybe we do have this as humans.

Darren: Yeah, I think certainly. The brain can do some amazing things that we are just finding out about. We probably don't know how to harness them but maybe on a subconscious level we are harnessing them. You don't know what your next thought is going to be. You can never predict that. Our conscious and our subconscious, there's two separate things that's going on there and are kind of getting in to warn us.

Now, I don't know what I'm talking about but definitely some fascinating stuff going on there. And I like Denise Shull's work, where she worked on this proof that you can read what other people are going to do. There's like a skill for predicting what other humans are going to do. Obviously, that's strongly connected with what we're doing as traders.

Walter: Are you talking about like cold reading like when you go to a Palmist? The palm reader basically sizes you up pretty quickly and tries to get information from you, then tells you the same information in another way or something. Is that what you mean or is that something different?

Darren: Well, she kind of goes into your fractal Psychology. She works out basically what's driving your decisions from your past like things that happened in your past and they are driving your decisions. She highlights this to the trader she works with. By highlighting these things, they start to look at the charts in a different way and then see

improvement in their performance because just from being aware of how they are making decisions, basically.

Walter:

That's Exhibit A. The other one I want to talk about -- because I think this is fascinating -- this idea that instead of individuals having some sort of premonition or ability to anticipate the future. There's this idea that's coming like this "hive mind" where all of humanity as a whole, if you look at them, they can and they are aware of the future events. Particularly, major future events and that this is reflected in their language.

There's a guy, a Programmer -- by all indications a brilliant Programmer. What he has created are these little robots that crawl around the internet especially in social media. It picks up information from the internet. What he's trying to do is piece together the most important language patterns because he uses these to say, "This is what's going to happen 3 months 6 months a year from now based on this language."

He starts with the presupposition that humans have this ability to tell the future, to know what the future is going to be. Like, the future is a pebble dropped in the pond and the ripples are coming towards us. Before we actually get to the pebble, we're getting these ripples. The way that this works is best I understand it. Now, **I'll link up his work on the show notes** here because it's absolutely fascinating.

I first was turned on to these in May or June of 2008 because he was talking about this major event that was going to occur in September, early September 2008. It was going to have a name, people would refer to it, it would affect especially the financial markets and all these stuff.

This is what he had determined through the language patterns. For example, you might say something, Darren, you might say something like if I was to ask you, "Hey, how's your trade going?" Or, "How does your trading go?" You might say, "Ah it's going pretty well and I'm working on a new exit strategy and it looks promising." That'll be one way of saying it. There's not a lot of emotion attached to that.

But, you could also say something like this, "Wow it's amazing! I'm very excited about this new exit strategy. I just made 20R yesterday." There's a little bit more emotion attached to that.

And then if I ask you the same question, you might say something like this, "This bloody thing is going to make me so much damn money! I'm going to retire to Monaco tomorrow." Something like that.

It's all the same question. It's all the same answer, really. But, there's more emotion attached to the third one than there is to the first one. That's what this guy looks at. He

puts out all of these reports where he's trying to distill what are the most important things.

One of the things he's been talking about forever for years and years is Bitcoin. How 2017 was going to be the year of Bitcoin and blah, blah, blah and all these stuff. Anyway, I just find it fascinating. This idea that humans are in their language almost like leaking out their knowledge of the future.

He's essentially collecting all these data through his programs and assimilating it into the way that he views the world. I just thought it was fascinating. I'm wondering if you have any thoughts on that.

Darren: Yes, pretty amazing. I did hear. Like, there was some guy, some university guys in England who did something similar with Twitter. They had like an algorithm that took all of the tweets with regards to the financial markets, then crunched them up and could predict what was going to happen in the stock market or the currency markets. And, they did a similar thing. I don't know. Is it an intense fundamental analysis, isn't it?

Walter: I guess you could say that. He doesn't talk about it that way and he's not even really a trader. He talks a lot about social trends and political events and things like that. It's not just financial markets, although that obviously comes up from time to time.

This guy is... I think he's largely self-taught. He lives like in a van in the woods. He's this really reclusive, very eccentric dude but he's clearly very smart. He says like you were saying Twitter, he definitely... His web crawlers were pulling information off Twitter. He says he gets brilliant stuff from Snapchat.

He goes, "You won't believe the kind of information I get from Snapchat." This is really fascinating to hear and he's pretty old. Like, he's been around for a long time. He's consulted for companies like Google and Microsoft and stuff like that. He's a really good programmer, like a top-notch dude.

I just find it fascinating, this idea. The way I see it and he explains it I'm sure better than I do but you can read up more about it in the **show notes**. He has tons and tons of videos on Youtube for people who are interested. But, the way he explains it is that we're leaking out our knowledge of the future by the words that we use.

The way that we use them and the emotion that we attach. The more emotional we are with certain words, that means that the event is closer, right? Whereas, if there's a little bit of emotion here, it's further out. That's how he kind of hones in on it.

Darren: I mean that's quite comes back to the original question where trends, cultural trends are revolving but we're not predetermining what those trends are going to be. They just evolve.

Walter: Yeah. But, if you look at through Taleb's point of view, we look back and we saw that Hitler was coming or whatever. We look back with hindsight, and we say, "But that was the slow rise of Hitler, that was obvious" or "That was the slow march to WWII." Whatever it is, we look back, we color it another way and say that was the rise of Donald Trump or whatever.

Darren: That's maybe why we buy into this being able to predict trends because when we do look back it looks so obvious. We must be able to predict them in the future. But, it doesn't necessarily work out that way, does it?

Walter: Absolutely.

Darren: You might be better off just participating and making the most out of what you can.

Walter: Exactly. I mean, I think it's fun to look at that stuff and try to predict the future. I think it's more helpful to look at things in terms of probability and if your data tells you that you're going to more likely to make money if you have a 10R exit in random, randomly assigned bullish and bearish days then go for it! But, you might feel more comfortable splitting it up, maybe you have a 5R, you use that strategy with a 5R target and you use the same strategy with a 10R target.

Darren: That's exactly what I'm doing at the moment. I did it for the last 3 months. I take 2 positions on exactly the same entry and when I have a 5R target and the other one is a 10R target. I'm even at the moment looking at adding a 1 to 1R target of the same entry. There's a lot of reasons for doing that and it isn't all about making more money, just about trying to diversify risk.

These psychological things, even if you understand the Psychology of going through long runs of losses or drawdowns, it makes it slightly easier to deal with but you're still going to feel uncomfortable.

I've touched on this quite a lot in the past. Things that I add to my strategies now tend to be things just to make it a bit more comfortable. I might even add something that's going to make me less money but make the whole long process of it more comfortable for me to deal with and there's nothing wrong with that.

Walter: Absolutely, because you're trying to set yourself up for long term success.

Darren: Yeah and I want to enjoy it as well. I don't want to be in pain everyday whilst I'm achieving it. If you believe the 20-period moving average is the one and you're testing shows that the 50-period moving average is slightly better, still nothing wrong with using the 20 because it's Psychology, Psychology, Psychology.

Walter: Absolutely, I agree. That's why I think when you have a trailing exit and a target, like if you split your trade up to a trailing exit and a target, two different positions, it's not because you're going to make more money. It's just because you want to have those trades that don't make a lot of money on the trailing exit but do okay on the target.

You want to have those so that you feel psychologically like you did, "That was a good trade!" Even though you're better off probably almost always using the trailing exit on all of your positions. But, it's just painful to have so many of those trailing exit trades give back so much profit and not do well.

Darren: I've seen you post about that notes in the past and I always resisted that idea. With time, I've kind of see what you're talking about now. At that time, I just wanted to be the best. If that's not the best return, I'm not going to do it and do what's the best return but then, you're more likely to make mistakes and give money back in other ways.

Walter: Yeah, absolutely. Well, Darren, this has been a fascinating discussion and I appreciate your thoughts on prediction. This is an interesting podcast or the last 2 podcasts I should say -- Part 1 and Part 2. Thanks a lot for your time.

Darren: Likewise, Walter. And a Happy New Year!

Walter: Thank you so much. Happy New Year. See you next time.

Darren: Okay. Bye, Walter.