

2 TRADERS

[EP128: What Would Make You Happy?](#)

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

Walter: Welcome to Two traders. Walter here. Hello, Darren. How are you today?

Darren: I'm very good, Walter. I have a question for you today.

Walter: Excellent. I can't wait! Let's hear it.

Darren: I'll give you two scenarios. I want you to tell me which one is going to make you more happy in a year's time. The two scenarios are: Win a Million Pounds -- or a Million Dollars for you -- or losing both of your legs? In a year's time, which one is going to make you more happy?

Walter: I'm thinking this is trick question because the obvious thing is to say winning a Million Dollars but then we know from studies that people who earn money are happier with the fact that they've earned the money than the people who've just sort of win it through the lotto.

A lot of people who've won money through the lotto end up wishing it never happen and all kinds of terrible things that have happened and things like that. I suppose it must be a trick question but my answer would definitely be taking the one Million payout.

Darren: Yeah, definitely. That is what everyone would say because nobody wants to lose their legs or limb or anything like that. But, when they've tested this, the interesting thing -- and you know the lottery thing is a good example. If you'll look at lottery winners and you ask them a year later, has it change their life? There's a distinct large percentage who say they wish they had won it.

What they've found is that after the year, it's equal. The person who wins the Million Dollar and the person that loses their legs in an accident just as slightly to be happy as the person that wins the Million Dollars.

This is because the theory is that big events, the really big events, don't make much difference to long term happiness. What they've found is that a year later, the things that were driving their happiness was not the Million Dollars or their tragic accident.

It was what's happening right now. Whether they're having to sit in traffic to get to their new shiny condo or whether they've got problem with their sister or their internet is down.

Those small things is driving their happiness in the moment and those big things that we expect to give long term happiness have a really short time span of actually affecting how we feel.

Walter: That's fascinating, isn't it?

Darren: It is. I was reading it and whenever I read anything about Psychology, I'm always trying to think how is this manifested in how we trade. When you think about problems that traders have it's... We've often talked about really most simple strategies work but you need to grind them out over the long run to get the benefit from them and we find that really difficult.

When I was reading this article, I was thinking this is what's happening where we're sitting there at our charts each day and although rationally, we know it's about the long run, it's the very small day to day movement and results of our trading that's really driving our emotions and forcing us to make these bad decisions. What would you say?

Walter: Well, I have a story to relate based on the article that you cite. When I was in Graduate School, there was a guy there from Alaska in our town. It's a very small town. It was a mountain town and not a lot of people. It's like 12 or 13,000 people lived in this town. And then when school, when the University, was on there was 30,000 people. In the summer when everyone's went home, the town would go back down to 12 or 13,000 people.

There was this guy there who was kind of... He was in a sort of a circle, one of a circle of friends that I knew and he was from Alaska and he had lost his leg. I remember him marking about how many girls thought that this guy was like they've all wanted to be his girlfriend. You know what I mean?

It was interesting because it was like this guy, he wasn't like... I wouldn't call him a model or anything like that. It wasn't that. It was just that he had really great attitude. He did a lot of things. He was still sporty and would still go out in the mountains and hike around and stuff like that.

He was telling me, like I remember having this discussion about surfing and he was telling me about this island of Alaska that had this really good wave. He said, "Yeah, if I was ever going to be surfer, I'd moved to Kodiak Island."

He was talking about surfing in Alaska and all this stuff. I thought, this guy, he's lost his leg and it seems like a lot of people would just throw in the towel but he just seemed like a normal dude other than the fact that you know and like I said, everyone wanted to be around him.

It was like he had this infectious sort of optimism -- and the dude had one leg. That's kind of stuck with me. You don't have to let some sort of -- I don't even know what happened to his leg -- but you don't have to have some sort of accident or condition lead you down a path. It's really your choice. And so, that lesson always sort of stuck with me.

I guess it's not surprising that you would lose your legs and then a year later, you're back to sort of the normal everyday routines and things like you say, sitting in traffic. To me, you get to set, as a person, as a trader, you get to set the bar.

You get to set the barrier. You get to set and decide whether or not something is really going to upset you. Are you going to allow that 9% drawdown on your trading system, is that really going to upset you? Does that mean you have to throw in the towel or get upset and smash your computer or whatever? Or, is it just part of trading and there's really isn't much that you can do about it other than make sure that you're following the rules of your strategy and know eventually that you'll pull out of it?

Darren: Yeah. And likewise, from the test, it suggests that we're affected by the little inconsequential stuff that happens all the time. I think with trading -- and when you talk about trading the D1 time frame because you're not at the charts so much -- maybe that is avoiding that constant worrying about every pip movement and you're actually kind of switching off from it.

In a way, you're allowing the long term to evolve because you're just not so much in it. Like, you're not obsessed with trading. You've taken a step back from it. I think it's a problem we've all got. We're a little bit too obsessed with it and we're constantly in the forums. We're constantly examining the entries and backtesting too much. I think kind of stepping away from it so it's not the thing that's driving how you're feeling all the time. It could be a really positive thing.

Walter: Yeah, I agree. I find that you have a really fresh perspective if you're not always in front of the charts. It's kind of like the news. Whenever I read what the news, like the financial news, I find that very distracting. I find that much more useful to simply look at the charts. I find it much more useful to look at the charts occasionally instead of all day long.

It's like if you have a child and you watch your child every day, you see your child every day, it's hard for you to pick up on the little things, the little things that are changing in the child. But, if you're the grandparent and you don't see the child but twice a year, every time you see the child it made this big jump.

That's kind of like the charts for me, if you don't sit and watch every tick then when you come back to the chart you'll go, "Okay, I see now. This is obvious." That sort of thing. It's a weird thing.

Darren: Yeah, you're looking at the same data but it's being packaged differently, isn't it?

Walter: Exactly.

Darren: We're just really good at convincing ourselves that significant stuff is going on when really, it isn't. If you watch a M1 chart all day the drama of the day will be immense but if you'll just come around next day and look at a single daily bar then, you'll realize it went up a bit, it went down and then it close the bar where it started. Not a lot went on really.

Walter: It's a like a normal day, exactly. But, one of the things you were saying about the little things in your life that kind of made a big difference or the big stressors, that sort of thing, you reminded me of what Ed Seykota says in his book. I'll link up in the show notes for everyone if you want to read it.

It's called "The Trading Tribe" and he talks about. It's not really acceptable, at least in the Western societies, to have experienced emotions in an everyday basis. What happens is we experience these little mini dramas in our lives.

If we're traders, we'll almost certainly will experience these little mini dramas in our trading and that allows us to feel these emotions that we want to feel. That we want to -- as a part of just being human -- we want to go through these emotions and yet we can't really.

We're not really allowed to in society and so we have to come up with a reason for doing that. One easy reason is to just take some trades and get really upset at the result or something like that.

It's interesting. It's like the old Freudian. I know we live in a computer age and everything is, all the analogies are computer-based now but it used to be in Freud's day that everything was steam engines.

So the steam engine was the analogy and the analogy was that you had this steam, that you have to let off somehow. It will eventually escape in a form of a dreams or dirty dreams about your auntie or whatever. These things will just come out.

That was kind of the Freudian analogy but I think this idea that Seykota has about allowing, we allow ourselves opportunities to experience these crazy emotions and

that's what the markets can serve. They can serve that purpose for us if we let it, if we let it happen.

His whole point with the Trading Tribe which is illustrated in the book and also, they have these tribes around the world that you can go to and join them. You just go there to experience the emotions. I think we've talked about it before but the idea is you go there, you experience the emotion, you purge it from your system and that way you don't have to set yourself up for failure with your trading, basically.

Darren: It made a lot of sense. Your idea of setting up your trading in the morning and then you go off and do your surfing or your other work and you're not really focused on the trading, I think is really important.

Also, the element of your trading that you're focusing on is important as well. I think if you sat there everyday working out how long it's going to be until you made your million Pounds, you're probably focusing on the wrong thing.

Like the study I cited says, it's probably not going to make you happy in a year's time anyway so you be better kind of re-organizing your thinking. With my trading, I've pretty much got to the point now where I'm not really looking at the money at all.

I just get up, I look at the charts -- is it a set up? -- I take a trade and then I walk away. As someone said to me, "What would you do about missing trades or missing exit? Do you automate?"

I look at it like this: if I miss a trade, it was either a winning trade or a losing trade and I don't know which it would have been so it doesn't matter if I miss a trade. Likewise, if I miss a TP, then it's just as slightly that price would have gone past my TP and give me a bigger win then retrace and stop me out.

Walter: Yeah.

Darren: Do you know what I mean? I'm not saying that's the way you should approach trading but I'm saying that perhaps think about what you are trying to achieve and how you're trying to achieve it and what's important in a different way. Perhaps, just step back and reassess that.

Walter: Absolutely. What you're talking about here is this idea of... It's so critical because you'll play tricks on yourself if you allow yourself to look back and say, "Ah, I can't believe I miss that. I should've taken profit there and I didn't. Now, it's gone again."

If you allow yourself to do that -- and that is what you're doing -- you are allowing yourself to do that. There's no mistake there. You decide because like you say, it could go either way.

You could miss a good trade or you could miss a losing trade. You could miss an opportunity to take profit or you might end up with a better opportunity to take even more profit.

We like to go back and look at it and make reasons why we should have done it. We would've done it, we wouldn't have done that, we would've done that, well, you didn't. If it's really that important to you, you would have some sort of automated thing that would keep you up or whatever. That's your approach.

Darren: Yeah, definitely. When you look at the single incidents in isolation, then it looks really important that you missed that entry but that you make profit over the last three months. It didn't matter.

When you look at it and study the charts, your mind makes you over-exaggerate the importance of certain things. You get locked into that and I think that is how the battle of trading is being locked into the right things but we're constantly pushed to lock in to the wrong things, aren't we?

Walter: Yeah, that's right. To me, for you, it seems like a lot of what trading is -- for you -- is that exact thing. Figuring out what the right things are that you should be focusing on. You know what I mean?

I could be wrong but you don't strike me as a type of trader who is like, "Okay, I need to achieve this by this time and that by that time." You have all these goals like that. It's more about fishing around and figuring out, "I'm doing this now but should I really be doing it slightly different like this?"

When I'm talking about these things, I'm not talking about entries or whatever. I'm talking more about the psychology side of it and the risk side of it. To me, it seems like that's where you get the most out of trading right now. It's in that area, am I right?

Darren: Yeah, definitely.

Walter: It seems like that's the kind of fun in it for you.

Darren: Yeah. I mean, I still go on forums like Forex Factory and I look around. I dig for something interesting but I rarely find it any more.

Walter: You can find a fight, though. You can definitely find a fight, if you want to fight the fight.

Darren: I don't think I can post on there anymore. I can just read and that's actually the best thing that ever happened to me because it deflects me from getting into arguments from the internet.

It's like when your girlfriend calls out, "Are you coming to bed?" It's like, "No, I'm busy. I'm working." Essentially, what you're doing is arguing on the internet.

Walter: It's so true. They all go the same way. It's always the same way. It's like the guy comes in and he goes, "I've got this great system." Everyone was like, "Oh, really. Let's see it." And then the guy posts the system and it's like and a few people, "Oh, that's pretty good. I'll check it out."

By the end of it, the original guy that started the post, he's long gone. There's a couple of other guys that have kind of picked up the torch who are running with it although it could look totally different. Like, they've got these other bells and whistles on there. Then, there's other couple of guys that come in and just poke the trader and tell him why he's such an idiot and why it won't work. It's just classic, isn't it? They go the same way. It's always that way.

Darren: With 700 post in, nobody has even talked about the exit or the money management in the forum.

Walter: Yeah, exactly.

Darren: All they cite is assumption about whether it's a good system or not and essentially the exit rule is when you feel like there's a good profit.

Walter: Yeah, that's exactly what it is. So funny. I mean, that's cool. Maybe it's the same thing on like the bodybuilding forums, "Oh, you're eating the wrong protein, man." I don't know if it's like that. I suppose it's like religion in a way. Like, "you've got the wrong religion, I've got the right one." That kind of thing.

Darren: Yeah. Or politics, you know.

Walter: Yeah, politics. Politics should be the same thing. I guess, it's kind of like religion, politics. It's the same thing. Ego seeps into it and then it just takes over from there and becomes sort of a just a fighting match, trying to convert people.

Darren: I think what is good about trading is Psychology at least gets more talk, at least gets discussed. Some of those fields are probably do with a bit more of that and I think the tide is changing.

When you look at the Nobel Prize for Economics, it's more and more behavior. Human behavior coming in from Economics is definitely growing. The interesting thing is when Economics started out, it was much more about human behavior and then it got kind of pure economics and now it's going full circle. It is growing in popularity and I don't think it's going to change dramatically because we're not just setup to buying into these ideas.

Walter: Yeah. I mean, when you get into trading it's just, "Well, I need to find a system that makes money." Obviously, that's basically it.

Darren: Yeah.

Walter: I didn't realize that the Nobel Prize had moved that much. That's pretty cool. That's really nice. I'm just looking it up right now. Actually, I'll post this for the show notes, for people who would've want to look at these. I see what's going on here. You are right. There is one here from a behavior economics is the last one here, Contact Theory. Interesting isn't it?

Darren: Yeah.

Walter: It's interesting, this idea that the little things in life are the things that lead to happiness. I suppose that's sort of, for me, that highlights the importance of allowing yourself to understand that, "Is this really something that's affecting me? Am I going to allow this to affect me?" This fact that I am sitting in traffic -- or whatever it is -- and it's not really necessary the big things that happen in life that we think would change our lives so much.

It's actually the little daily things that sort of either way or had to happen. I guess, when you think about the other side of it, I suppose if I had to say what are the best moments of the day, it would be those little things that I find to be that gives me the most joy. That makes sense.

Darren: It just highlights the fact that again, with trading, the things that your gut tells you are the most important. That what you're focusing all the time aren't necessarily the important thing.

Walter: Yeah, absolutely. Thanks for bringing up the article, Darren. We'll catch you next time. Thanks a lot.

Darren: Thanks, Walter. See you soon.