

2 TRADERS

[EP129: Relativity \(Part 1 of 2\)](#)

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Walter: In trading, I don't think it's necessary for you to defend your approach other than to just convince yourself, do you?

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. It's Walter here. Hello, Darren. How are you?

Darren: I'm very good, Walter. We've got a snow storm from Siberia today.

Walter: Oh, wow! I've heard. Actually, few traders told me -- I think it was yesterday or earlier here in Asia -- that it's snowy London. Is this unusual, isn't it?

Darren: It has become. I think when I was a kid, it seemed to snow a lot but now it's kind of unusual and an inch of snow can completely shut the UK down.

Walter: That's awesome. I remember I went to Graduate School in a really mountainous region and there were some people from California there, some students from California. I'll never forget first week of school, which is in the States it's like last week of August or first week of September.

I think it's usually the first week of September so it's kind of the end of summer. Six feet of snow, first week of school. There's this poor girl from California, she left and never came back. She totally quit, she just couldn't handle it. She just didn't know what to do, she freaked out, had a breakdown and just left.

Darren: It's so relative, isn't it?

Walter: It's not just the civil servants that go crazy, I guess. What does that mean for you, Darren? When it's snowing, does it change your routine or anything? Or, just making it harder for you to get around?

Darren: It makes me want to bring my flight out of the UK forward. I don't mind it. Actually, it doesn't really affect me and it's kind of a nice for a bit of a change, to be honest. Because, wherever in UK, it's very vanilla. We don't really get extremes here. We're in a kind of, on the scale of like natural disasters, we're kind of like in the middle. We don't really get anything extreme here.

It's just quite funny watching people's reaction to it though because like I say, having an inch of snow in the whole country is going bizarre. Whereas, somewhere in Scandinavia, it happens every hour and they seem to deal with it.

Walter: I guess, thinking about that, it's kind of like trading. When you first start trading, you react to every little thing, "Oh, I've got a great winner" or "I've got a terrible lost" or whatever and over time, it just changes, doesn't it?

Darren: Yeah, definitely. The big events to us, everything is relative, isn't it?

Walter: I remember thinking, when I first start trading, that I did something wrong that's why that last trade didn't go well and now, I don't think that way at all. Are there some things that you look at differently now?

Darren: Yeah, specially stuff like cause and effect. I don't try examining every winning and losing trades and consider it significant anymore.

Walter: So, you are more focused on learning how to deal with it yourself, I guess.

Darren: Yeah. And just by being much more thinking in bigger numbers and groups of events rather than, if you have that entry that's just perfect when you're away and blasted for your TP. When you start out those sort of things, they stand out and you're trying to work out what do you do then, how can I repeat that.

As you go on, those individual trades are like, "Oh, that was interesting". You'll start to say and you'll look at the last three months rather than the last specific trade.

Walter: It's interesting there was, I saw there's a common on the Forum, she's just had a really big winner and she's pretty excited about it. I just said that's great but I think it's important to also remember that you can take the perfect trade and it can be a loser too.

You don't want to put too much on one trade that it's excellent when you feel things turning around and all that, that's great. But, at the same time, the very next trade she takes, she can do everything exactly the same as on this one and yet it's a loser. It doesn't mean she should change anything.

Darren: One of the best things that you can learn from big winners or runs of winners is noticing how you react to it. Because as something that I know is very most, when I'm in a really sweet spot and the market is just right, and I can't do anything wrong, and I have a long run of winners, everything is just perfect, that tends to be the time that I made most of my mistakes.

I did it just yesterday, actually, with EUR/JPY. The moments perfect for me is pretty much one directional, seem very strong downtrend. I was thinking about 75-80% win rate for the week which is way above my average.

I skipped the next trade. I was feeling so good, I skipped the next trade and obviously, you know what happens. It didn't have a run of winners that I missed out on. I think a more important thing to look at when you have a winner, it's not what you did on the trade, it's what you do afterwards. How you react to that.

Walter: So true. It's like you're trying to trick yourself and give yourself reasons and excuses to do things differently. And, really, you should be looking for signs that you are doing things differently.

I remember, I think you've talked about it before too where it depends on your trading system or your style of trading. What your big and really you, what you believe in and how you deal with the market.

What your challenges are. It could be that your challenges, you want to take a bunch of trades and you have to restrain yourself. But, it might also be, you have to push yourself to take the very next trade instead of trying to find the reason not to take it.

For example, you get gunshy when you have lots of losers in a row. This is something that I think that you've mentioned before. When you have this system where you're kind of always in the market or nearly always in the market, one thing that comes up is, "Oh men, I don't want to take another loser". You know what I mean?

Do I really have to take this signal and then if you don't take it of course, then that's the one. You're like "Ahh, that could've made my week."

Darren: It's so hard to give trading advice because like you say, it's a very individual thing and it's never black and white. Every element has shades of gray in it and I think if you can at least accept that in your mind, you can buy into that concept.

I think that can help you along and trying to see it as black and white is probably a big mistake to make. That is why it's very hard to give specific trading advice and I think you need to look at the big picture. The big simple ideas rather than trying to look at it like Physics.

Where there is this problem and there's this like one solution and it's just the case of working out that solution. I think that is one of the hardest things to take onboard and then when you do develop your own style, you have to go against it. Go against that idea and say, "Okay, I don't trade with any analysis at all. I'm just running numbers and probabilities. What's happened running up to my particular set up is there's no relevance to how I trade at all. I am not working out what the market is likely to do next based on what it has just done." But, you can do that.

So, I can't sit here and say, "Look, don't do analysis because it doesn't work. I'm making that idea work for me." I can't do that because it is so gray. It's not black and white. You can do analysis and make it work. Which makes it a very hard thing to advise people on.

Walter: Do you think that you can help somebody discover where they are? Hearing you describe this, it reminds me of, sort of the debate in Psychology about personality. How can you possibly give somebody a personality type?

People are so unique, how can you possibly say that there are 5 types of people or whatever, 17 types of people or 32 types of personality when people are so diverse? In a sense, it's exactly what you say. It depends on how broad you want to go.

You can say that there are many. Many different infinite types of people but in general, some people are more outgoing than others. Some people are more conscientious than others and that's the way they approach personality types and personality inventories.

Would you say that, that could also apply to trading types or trader types?

Darren: Yeah, definitely. I think that is how we should approach trading, as broad groups and broad ideas. Don't say that 3R risk/reward is the best risk/reward. Say a positive risk/reward is, can be an advantage.

You don't look for the best risk/reward, you work in a field of positive risk/reward being an advantage. I think that's where big ideas come from.

Walter: Yeah, I totally agree.

Darren: Yeah, in something like trading.

Walter: Yeah, I'm with you. I put together a webinar the other day and I was looking for discussions on the internet forums of traders. Just to pull out examples of where people are saying, "No, you're wrong. You can never do this and you can never do that in trading because it's so prevalent."

I don't know why but, it's just funny to me. It's funny to me that there are people out there and trading is not unique. I'm sure that if you are to look at politics or religion or any other hot-button topic, gun control or abortion or whatever, you can find these sorts of arguments.

Where people are just locked-in to their approach and there really isn't anything that you can say to sway them. In fact, one of the interesting things I found in the research is that when you give somebody information like I say, "Darren, here's this that shows that trend lines, this is a study of all these trades and trend lines trading works" or whatever.

What happens is, it's interesting. When you give people evidence, they actually hold to their beliefs stronger. The classic example was the Iraq war, the second Iraq war with the US going in and everytime Colin Powell who was the Secretary of Defense in the United States at the time, everytime he spoke, it would make the Euro jump around.

He was basically the news for the currencies. When he'd spoke, everyone is trying to figure out if he was saying that they're going to war, or do they find weapons of mass destruction.

He talks to talks to these people who believed that there were weapons of mass destruction in Iraq. And when they couldn't find them, they just said, "Well, that just proved that Saddam Hussein is hiding them." You know what I mean?

Darren: Yeah.

Walter: It's so true. It's the same thing with trading. We just hold to our beliefs and it's hard for us to actually to take the other side or see it.

Darren: And there's a lot of evidence that the smarter you are, that becomes even worse. It's even harder to change your opinion because you've just become more skilled at supporting your own beliefs and your own evidence. You become really more skilled at telling your story that basically confirms what you believe and this is everything else. Which is good for me, I am happy with that.

Walter: I think the key is to separate the theory from the evidence. I think that's the key. People will take these debates personally and take them as personal attacks. But if you can just tease apart the theory from the evidence, and just say, "Here's my theory. Here's what I think is going on here and here's the evidence to support it" and then you can let other evidence come up and weigh it.

And say, "That doesn't fit the theory. What does that evidence suggest? Does it suggest that my theory is wrong? What's going on here?" Sort of the scientific way of, that's we're meant to do in Science.

I don't think that actually happens in Science but that's what they'll tell you in the textbook that the Science does. So first of all, do you even need to do that? Is it necessary? I don't think it is.

In trading I don't think it's necessary for you to defend your approach other than to just convince yourself, do you?

Darren: No but people do it, don't they? People do it a lot.

Walter: They want to be a winner. They want to be in the winning side.

Darren: I think anyone who says, trendline don't work. Support and resistance don't work. Price action doesn't work. If you say stuff like that, it's not going to work then I think you've got the wrong mindset.

Walter: So, what should you be thinking? Like, this is the evidence or I don't believe it's useful. Is that really the idea? Would you say, like I say to you, "Darren look, the NZD bounce off of this support level that goes back 12 months. What do you say about this support level?"

Would you say, "It's irrelevant. It doesn't matter if it bounce off there. I'm not going to use it. It's not my approach."

Darren: If you are going to say something doesn't work then why are you saying, it doesn't work? Have you got any evidence to back that up? Have you got proof that it doesn't work? If you can't back it up with evidence then you can probably at least align it with some sort of probabilities.

I would argue that support and resistance is 50-50 but I would base that on my examination of support and resistance. If you can enter randomly then surely anything can be made to work. If you can enter randomly with other elements, controlling how you trade then surely anything can work.

It's really a difficult debate to get into. You could come to trading with a very strict belief that these elements that I'm using work. Nothing else work. You can be profitable trading that way but you could also be wrong. I think that sets you up for difficulties in the long term to have that kind of really fixed mindset.

Walter: Is it because trying to be right gets in the way of trading, of making profits from the market, is that the issue?

Darren: Yeah, because the evidence suggest that at some point you're going to be wrong and if you were so borne into the idea that you are a 100% right then it's going to be a very difficult to deal with those periods where you're wrong.

Whereas, if you come with the mindset where you know that you are going to be wrong, you know there's going to be periods where you perform worse than you planned or your data suggested then you are less likely to make bad reactions to those periods.

Walter: Yes. I hear traders say, "Hey, I've done this and I backtested that and these are the results" and then they'll say, "So, I need to fix this. Obviously, my win rate is not high enough. I need to do this, this and that." I'll say, "Wait, why?" Why do you need to do

that? The answer that we're getting at is because you want to be right. You want the satisfaction of being right. It's what it comes down to.

One of the things I was just thinking about when I first started trading, one of my biggest mistakes was, I would have trades that I would be languishing over and over days or whatever, and that would be going against me. I'd like just to keep moving the stop and I think that is because I didn't want to be wrong.

I want the trade to be right. What end up happening is I kept increasing the risk on these positions from what I originally intended to risk.

Darren: And moving the stop away?

Walter: Yeah, moving it away. For example, I remember one, I was on the CAD/USD. I think it was a buy trade on the USD/CAD and then I've got on a flight. When I've got to the other side, scrambled internet and I'm like, "Arh! I've got to move this stop a little bit farther so it can bounce here and I'll be alright" that sort of thing. I just did that too often.

Today, it actually doesn't matter to me. I don't want to say that it doesn't matter because it's never fun to take a loss but it's not nearly the big deal that it was when I first started trading. Do you find the same thing?

Darren: I think so. I think when you start, you plan what's going to happen and it's very hard to give up on that outcome. So when you see it coming close to your stop, you'll still be convinced that it's going to turn around and hit your profit target. You'll do anything to hold on to that, that outcome that you've already brought into. I think you just have to get more comfortable with losing much more.

Walter: I totally agree but how do you do it? Is there a shortcut? Do you just to take a lot of trades and grow lines on your face or what do you do? What's the trick? I'm asking you because I can't figure it out.

Darren: I don't know really. It takes time I think. It takes time to become comfortable with losing. It always feels much greater than it is as well. You can backtest 45% win rate, 50% win rate strategy all you like but in live trading, it will feel like you're losing way more than you did in your test. Even if you're perfectly in line with what your data suggested.

Walter: That's so true.

Darren: 3 losses on a trough, 50% win rate will just feel completely wrong.

Walter: It's so true.

Darren: It will. I think you have to battle through that. Half the problem is we're trying to do that on our own. I really think if you team up with somebody with the same strategy and have that dialogue with someone as it was happening rather than just by being on your own, sat in your room on your own, actually experiencing the losses, I think that is something that can help a lot but it's an unusual scenario.

I think the majority don't trade like that. Recently, a trader I know started trading with his wife. They are not trading exactly the same strategies but similar strategies and they're both seeing an improvement in their results.

I just wonder whether there's a bit of dialogue going backwards and forwards there. It comes with this idea of when you express your emotions rather than just internalizing them. When you can actually talk about them, it seems to kind of calm everything down. That is something that you can try.

Walter: Have you read the "Trading Tribe" book by Ed Seykota?

Darren: No.

Walter: I'll put the **link in the show notes** for everybody. I think we've talked about in one of the earlier episode. He basically said exactly what you said. He said, it's the emotions, getting those emotions out that is going to help you.

His whole Trading Tribe concept is that. You go these tribes, it's free to meet them, to meet with these groups and you just experience the emotions that you don't have to play up little dramas in your life or in your trading or whatever. That's the idea.

I think writing can definitely do that for some people but he has a strong argument. Which is, the reason why -- and this isn't funny at all but the reason why -- you are sitting there, crying into your keyboard because you lost too much money on the Euro is because you're not crying with your family members or whatever in your everyday life.

What you'll have is you kind of setup these little dramas in different scenarios so that you do experience those emotions. One easy way to do that is to set yourself up trading that way.

It's kind of like the subconscious way of letting off steam or whatever. His argument is, "Look, you just do this instead. Just go these tribe meetings, it's a safe place. Let it all out and then you're clear. You are all clear when you go and sit down in your trade." That's the idea. What do you think about that? Is that similar to what you are saying? It sounded like it's the similar idea.

Darren: Yeah. I work a lot in -- when I'm trading in -- online groups where posting in our entries and the outcomes of the trades and discussing ideas as we go along. That kind of help...

Walter: That's different, right?

Darren: I think it's different, I think it's about having someone actually there face to face with you.

Walter: Oh, right. So you're not talking about, even just having an accountability partner you talk to every week or whatever. You're talking about a face-to-face kind of interaction, right?

Darren: Yeah. I think it would help if you actually face to face with people and were discussing the trading as it went along. So, it's quite hard to put your finger on but I think settling differences there than just sharing results online.

Walter: I think what you're talking about, it's like to me, what I am hearing is, it's more about the experience and sort of the experience of the trades rather than the sterile stats or whatever.

Darren: I could say, "Look, these are the precise rules to my trading plan. There's no discretion at all. This is how I am going to trade." And then at the end of the week, I could just post my results.

Now, if anyone wants to check my results with very strict rules, no discretions and saying, "This is what I'm trading on this time frame." You could go back and you could verify my results. But, people say stuff like, "I actually want to see your account. Share your account. Show me your actual trade report."

When it's online, there's a level of distrust, which is quite hard to overcome. I think when you're face to face with people, that's slightly different. I think we can read people fairly well.

Walter: It's sounds like UFO's. If only I had this scrap of UFO metal, I would know that it was a real UFO or something. It's like a never ending, you're always trying to overcome the next barrier or proof or whatever.

Do you think that people when they with another trader, do you think that they get more out of the ideas when they exchange ideas with another trader or simply unloading the emotions of the experience of trading?

Darren: I don't think it even needs to be another trader.

Walter: Just another person?

Darren: Just another person, I think.

Walter: But what if they don't know a cent in trading? Traders often feel isolated like, "Oh, my wife doesn't trade. She doesn't understand."

Darren: I think you're probably just over again the skill and knowledge there. Most people understand trading. We kind of get bogged down in all technicals like we're being scientist, we're being really smart and clever but you know, you're taking bets. You're gambling.

When I first explain what I did to my Thai girlfriend, I went into this long drawn out and I have to kind of use translations online, trying to explain what I did and then she just turn rant to me saying, "Oh, you're a gambler."

So, I think most people understand, really it's about the emotions that you're dealing and it's about verbalizing them as a tool to trade better. Also, the actions that you take based on the emotions you are feeling become more rational.

Also because, let's say that I trade 50% win rate and every 100 trades, I am expected to get 10 consecutive losers. My data backs that up and I still have a positive expectancy. Regardless of that fact, if you've taken 4 or 5 consecutive losers on a trough, there's a possibility that, that's going to affect your actions.

If you are able to sit down with somebody and say, "How's your trading going?" and you are just good to say, "Well, I just had 5 losers this morning." No one is at all at that 5 losers. And then, I need to tell mine and say, "Is that bad?"

You are already just in a dialogue to start considering the data rather than just how you were feeling because you will be feeling rotten. No matter how good a trader you are, you are going to be feeling some level of rottenness in there for your 5 losers that morning.

But I think, just that dialogue you'll start to consider the bigger picture. You'll break out the little vacuum that your emotions have suck you into. I quite often have 3 losers on a Monday.

My Monday was a little sort of in-joke in my Facebook group when Monday comes and I posted the result for the day, 3 losses. It was a bit of an in-joke. I could react badly to what I've grown to accept it as part of the process. I think that's somewhere you need to get to.

Walter: What if you just don't have it?

Darren: What? 3 losers?

Walter: No. What if you just don't have that ability where you just feel like you'll never going to get there. Should some people just thrown it in and say, "Well, maybe this is not for me."

Darren: I think, we've all got the ability.

Walter: I agree. I think we have many more abilities than we give ourselves credit for but is there a trader who probably shouldn't push on, even though we have faith?

Darren: I know you really like this question because you pushed me on it all the time. I don't think I really know enough to be able to answer that question, is the honest answer.

Walter: Who should quit trading?

Darren: My gut feeling is that the majority of people can become good traders but I'm basing that on my, because I don't think the skills are really that hard to learn. It's just more a case of becoming aware of them.

I think sooner or later, most of us kind of looked down those alley ways. For some of us who takes longer than others and certainly some people will never go there. But I think, even if you've been losing consistently for 3 or 4 years and you've blown up every small account that you've started, I think there comes a point where you will say, "Okay, look I've been round this roundabout a million times, maybe I'll start reading some different information and taking some different ideas on board.

Am I being over simplifying it there. Are there some people that will just blindly keep banging away on what doesn't work? I know we all do that for much longer than we should but my gut feeling is that sooner or later, people are going to say, "Okay, these ideas that I've been trying are just not working. I need to look at some different ideas and information." Am I missing the picture there?

Walter: Okay, that's all the time we have for today. In the next episode, Part Two, you are going to hear about what traders can learn from the UK Pension Fund; How to reduce overwhelm when it comes to your trading goals; The retired trader who is a hazard on the road and why.

The motivation behind trading that's nearly universal for all traders and perhaps for you as well. Why you must look into this one thing when you are setting your trading system

up and going live. And, what business is going bust and what it has to do with traders. We'll also talk about the best band.

All that and more in the next episode, Part Two of the 2Two Traders Podcast.