

2 TRADERS

[EP131: Resiliency \(Part 1 of 2\)](#)

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Walter: It's easier I suppose, to prepare yourself for the next trade to be a loser...

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. Hi, Darren!

Darren: Hello, Walter.

Walter: Welcome back, Darren. It's great to have you here.

Darren: Yeah, it's been a while.

Walter: Yeah, It's been a while. But hopefully for the listeners, it's just been a seamless progression of podcasts for the week. So they don't realize that we've been...

Darren: The wonder of the internet.

Walter: Yes, we've been on the lam. So, I went to this talk and we were just talking about this right before we hit the record button. I went to this talk and the guy's name is Martin Seligman. Martin Seligman is known as the Father of Positive Psychology and it was a great talk.

He's pretty well known in the Psychology world. It's interesting though, the way that he describes — just a little bit of background for people who don't know, positive psychology is this little area of Psychology. It's mainstream now but it's still kind of like the redheaded stepchild.

It's not one of those main sort of accepted areas of Psychology. It's getting there, but certainly and actually Dr. Seligman talked about this at his talk that he had here in Sydney. What Psychologists do really well is they're really good at looking at differences and they're really good at looking at extremes and when things go wrong. That's been the focus of Psychology.

What he's done is this whole sort of mini industry has sprouted up and actually a lot of these people are in Australia, I come to find out. I didn't realize that it was so deep-rooted here in Australia where they actually use some of the principles of positive psychology— for example —in schools down in Victoria, Australia.

It was a really interesting talk and one of the reasons why I want to bring it up is because Seligman, what he talks about — anyone who's kind of gone through some of my courses they know that I focus a lot on limitations. How what we do as people, as

traders, as parents or whatever, a lot of what we do kind of set limits and boundaries. We do this for ourselves, we do this for other people. Sometimes it's hard to see it. It's like the fish in a fishbowl. You don't really see where the glass is because your setting these limitations.

That's one of the things I asked Seligman. I said, "What's your take on this?" I mean, in some ways I kind of gave him a softball question which was, "You know, I see limitations as a key part of our growth because we need to realize that when we set these limitations, however obvious or conscious they are for us, these are the things that are holding us in. This is where we live. We live in this fishbowl because we don't think it's possible to go beyond a certain point."

Obviously, these maps on the trading quite well. I know a lot about his work, so I think a lot about limitations. "Can you talk a little bit about the difference between or the importance of limitations and thinking about limitations versus resiliency?"

Resiliency as a concept in his work which is a big one. It's a big area of his research and in fact, he did a huge study in the United States for the Army Chief of Staff. I think his name is General Casey - he was the Army Chief of Staff just a few years ago now.

He basically said to Seligman, he called him up and he said, "Look, we've got a lot of soldiers coming back with PTSD, suicides. They can't integrate in society, blah, blah, blah. Divorces, this and that, and what does your positive psychology have to say about that?" Basically, "Hey, Marty. What does your positive psychology have to say about that?" And what Seligman said was, "Look, there's actually a bell curve."

Just like we know in everything, with trades. We know there are trades on a bell curve. Some of them are at this end and some at that end. He explained to the guy and said, "Look, you're basically looking at the ends of the curve" and over-arching response, for most people, when they run into a really tough situation, like war for example. As a soldier obviously does is that they bounce back.

Typically, they'll go through a couple of months of really hard time, but after about 3 months, they'll pull themselves out of it and they are actually better for it. There are specific skills that you can learn when you're talking about resiliency that you can teach them to your kids.

Of course I was thinking yes and this actually is really important for traders because my operating theory here is that, if you go back and read the famous traders —like in the Market Wizard — what you'll notice is the experiences that the traders have is pretty much the same.

Like, they all pretty much start out, they all make some serious mistake usually involving risk. Then, they usually swear to never make it again and they basically bounce back. At some stage, they basically get wiped out. They kind of pull themselves out and then they make good.

In other words, they're quite resilient. They are able to keep pushing forward and I think a lot of traders don't do that. A lot of traders, when they hit that really tough patch, they just kind of give up. Maybe those traders are not as resilient or don't have the skills.

I guess that's my long-winded introduction here into this idea of resiliency, which is closely associated with Seligman. I was just wondering what your thoughts are, Darren, based on that. Like, how does resiliency work into the psychology of the trader I suppose is what I'm getting at here.

Darren: Well, I have seen some data that suggests that the reason a lot of traders don't get to a profitable stage is because they give up too soon. Suggesting that the actual skills required take a long time to learn.

And like you say, when we get a certain amount of negative responses from trading, we tend to give up. Or, even if you don't give up trading, perhaps you give up on a process or a strategy that would be successful.

You change the elements of that. Usually, the elements are most vital and that basically makes this cyclical behavior where you don't actually ever move forward or reach that comfortable stage.

I think that's definitely true and I think that's compounded by the skills of being a successful trader tend not to be the skills that are quick to learn; because it generally involves changing beliefs and behavior. Anything in life where that's required seems to be hard for human beings to achieve because its not short term. Another example would be dieting. You know there's only two simple rules to dieting but despite the fact...

Walter: Wait. What are they? What are the two rules?

Darren: Exercise more and eat less. That big ballpark rules and you know you can go into a lot of complexity and that tends to be what people do because they want a short term solution.

They want results that are way beyond rational expectations so they forget about the two simple rules. Then they either give up or they go down the wormhole of weird complex rules, which kind of miss the big picture.

Obviously, it is the most important thing. If you look at the preference for high win rate strategies that falls in to the same ballpark; if you test the system and clearly see that holding trades longer and cutting your losses shorter, is in the long run going to make more profit.

It is very hard to execute that because that requires a lot of resilience, like you say. Because over 50 trades or a hundred trades, you might not have seen any profit you might be in drawdown. It's very hard then to go on and do a 3,000, 4,000 trade sample and see the results from there.

Walter: Yeah.

Darren: Here's the thing now, Walter. It cannot be taught or does it have to be learned? Is that something that really can only come from yourself? Or is the system and strategy teach people to become resilient?

Walter: Well, that's the interesting thing. When Seligman talked to the Chief of Staff of the Army — his name is General Casey. I'm sure people can look him up, **I'll put him on the show note**. What's interesting is, he was asking Seligman. He said, “Well, how does this work? We want to get these principles out there.”

Seligman says, “Yeah, we’ve done it before. Teachers can teach their students these.” And the General said, “Well that's great because that's what the army has. It's a teaching system.” Seligman said, “What are you talking about?” He said, “We have 40,000 teachers.” He said, “Really? The army does?” He said, “Yeah. They're Drill Sergeants.” And so, that's what they did.

They took this program that basically had been used in the schools in Australia and they just tweaked it a bit. They tweaked like 20% of it, just like the examples and stuff. And he said it was interesting watching the Drill Sergeants go through the training at the University of Pennsylvania.

I think it was a 6 or 7 day training for the Drill Sergeants. The first day that they go in there, these guys — they are all rough and thin — these are war heroes. They're like rough around the edges. These guys are sitting back there, leaning back in their chairs with their arms folded and kind of like, “Yeah, whatever.” He said by day 2, they were all leaning forward and paying attention. To cut it short, basically what happened was, the program was a great success.

They were able to transfer these skills from the Drill Sergeants to the Soldiers. Infact, one sort of anecdote was that one of the Drill Sergeants called home and was asking his son how his soccer game went over the weekend. You know they were having a back and forth or whatever, the kid and the dad.

Finally, the kid said to his father, his Drill Sergeant father, "Dad is this really you?" because he was so different. He was taking such an interest in what the kid had to say and stuff like that. It was obviously a different interaction and it was based on what he had learned. I just found it fascinating that it appears as though that the skills are transferable, that people can learn these resiliency skills.

I think exactly like you do, Darren. I think that probably, it's not guaranteed but it's almost guaranteed that if you trade long enough, if you are able to stay in the game long enough, you will eventually figure it out. You will become so obvious how this trading thing works. The problem is you have to stay in the game long enough. You know what I mean? Don't you agree?

Darren: Yeah, a hundred percent. I've been noticing this a lot recently. Specially with traders that I've been working with closely for a long time that still haven't quite got to that stage where they are profitable. But, you can see that they are just slowly changing their beliefs and their actions and how they're approaching the trading.

I think it's because that skill takes long. I'm often thinking, how can you accelerate this? How can you accelerate this learning because I think a lot of it comes from, like you say, through bad experiences, through negative experiences.

And you have to have someone explaining to you that this is what's going to happen. This is the right way to approach it. It's different to actually go through the experience. I think this is another reason why it takes an amount of time. But I'm always trying to think, "Is there a way? Are there systematic ways to accelerate this learning?"

Walter: Seligman would argue that they are transferable, that you just have to look at things slightly different. He admitted in his talk, he said, "We're pretty much built to be pessimists. We're kind of born that way and we survive that way."

The problem is the guy, you know back in hunter and gather days, the guy who was walking around the field in a blissful state of happiness, not really worried about anything or concerned about anything. That's the one that the saber tooth tiger ate. That's the guy that's dead.

The ones that are worried about the predators or the weather or whatever - these guys that were concerned, they are the ones that survived. Then he said, he's had to fight his genetic disposition of being a pessimist.

It's not a completely standard issue but pretty much all of us have that sort of makeup and work on it and that's part of it. Same thing goes for resiliency. There are certain ways that you can look at a thing.

See, the problem with our lives today is we don't have the saber tooth tiger. We don't have - normally in most cases - we don't have to worry about the hurricane destroying our village. So these things, we're so lucky in the time of where we are in this point in history that we don't have those concerns.

A lot of what it comes down to is basically identifying what you're good at. Looking at your progress, looking at what you're doing from a progress point of view rather than a goal point of view.

It can be really stressful when you say, "I wanted to make 80% this year, and I'm sitting down here at 5% and the years half over, whatever" these sorts of things. But if you look at progress - you say, "Last year I lost 30%. This year I'm up 5%. That's a pretty good turn around." It's all in a kind of a way that you look at it.

It's one of those things where I think I almost feel like the people that have propensity toward it are the ones that would keep pushing and push through the bad times as a trader. The ones that don't have that propensity or its just not quite in their ballpark, they are the ones that give up. Or maybe it's not.

Maybe it's more of a determination thing where some people are just bound and determined that this is what they're going to do and they won't let anything hold them back. It's just a setback.

That's another thing with resiliency. You can look at things as all or nothing. You say, "Well I didn't make money this year. I'll have to go back to my job or whatever. This trading thing is not going to work."

You can look at it like that or you can look at it like, "Well, this is a challenge. There's a code here that I got to crack. I got to figure out what it is and I'm going to get myself set up so that I can make this work because this is really what I wanted to do."

That's similar to the internal and external locus of control. The internal locus of control is when you feel like you determine your outcome and you decide what will happen. External is kind of like you're the leaf blowing in the wind. Whatever happens is what's happening to you, and you don't have much say in that.

It's kind of a similar thing to that and I'll **put it in the show notes** for people who are interested in the **locus of control test** and things like that. I just think it's fascinating. I mean, it's almost universal. If you look at these biographies of traders, it's just what happens. They all basically go bust and then they all rise from the ashes. It's almost like a universal story.

Darren: Yeah. I guess, I learned a lot from it. Something I do a lot is push this idea of expectations right up there in my daily routine when I am trading.

Walter: What do you mean?

Darren: I think, it's something that we perhaps look at during the backtesting stage but then we don't necessarily take that forward on a trade by trade basis. I think, it's something to sort of keep repeating and going over your expectations.

My trading system has quite a low win rate. The data says my expectation should be that I have lots of consecutive losses. Every time I enter a trade, it is much more likely that it's going to be loser than a winner.

I make that part of my daily routine. I'm expecting my trade to be a winner even if its gone halfway to my target. I expect it to be a loser. Even if it's halfway to my target, I'm still expecting it to be a loser.

It's about the results being in line with my expectations. Getting confidence and comfort from that, rather than just letting my mind generate the expectations through the day. I'm taking my data, this is my plan.

This is what the data is telling me to expect but I am not just going to leave that behind now and just let my mind generate the expectations. I go forward. I am going to implement now that in my process, in my actions. I'm always keeping my expectations in front of my eyes.

Walter: Yeah, right.

Darren: How many times have we developed trading systems with people and done the backtest and been really laborious with the data. Then three trades into the live testing, suddenly we've left those data and those expectations behind. We're generating a new narrative to what should be happening rather than what the data suggest should be happening and that can make you more resilient.

Walter: Absolutely.

Darren: I mean, I'm in 7 consecutive losers this week on the trough.

Walter: And you expected it?

Darren: It's within the line of my expectations. It's possible for me to have 40 consecutive losers so seven is going to happen fairly often — and it does happen fairly often. I think,

resilience comes from keeping that expectation in front of your face and say, "Okay, this is unpleasant but its not out of line with my expectations."

Walter: It reminds me of the... When they talk about the happiest-people-in-the-world studies. I remember Denmark usually ends up somewhere near the top or at the top. They say the secret is that they just don't have these wild expectations so when things go well, they are surprised and they are happy with that.

When I do my trades - let's say I have 3 open trades, which may happen then I'll get a 4th signal. Well that 4th trade, I'll calculate it based on the assumption that the other 3 trades are losers so I'm not going to assume anything other than the last 3 were losers.

That's more kind of a risk thing but I don't necessarily want to count it as if it's a win. Same thing if I move my trades to break even like today -- yesterday, I had 2 trades today -- I moved to break even and I just expect them to hit break even.

It's like at least hopefully, I won't lose money on this now because they are at the breakeven stage. I don't start thinking that I'm going out to buy a new Ferrari based on these trades. I don't want to get to that point.

I guess, you just set yourself up for disappointment don't you, Darren? When you get really into it and you are just like "yes", it's easier I suppose to prepare yourself for the next trade to be a loser.

Darren: Yeah. I think it's easier to have your expectations in line with your data because you're less likely to be disappointed. You're going to get what you're expecting. If your expectations are out of line with your data, then that's where you might get into trouble. It's making that jump from-to-process over outcome and that's a really difficult one to learn.

Walter: Yeah. Because you get instant feedback in trading, don't you? I mean, nearly. You have all these trades and the trades are looking at you in the face saying, "Loss-loss-win-loss-loss-loss-win-win-loss-loss" and so you think that you've done something wrong. I think that's the trap, isn't it? The trap is that you think that you need to change something. You have these 3 losing trades in a row, somethings wrong, you need to fix it.

Darren: Yeah and you have to accept that it's not chess where you know all of the pieces, or you can know all of the possible moves and you know where your outcome is really tied to process. Something like chess.

With trading, you can have really solid process all month and have a terrible losing month, and you need to know that that's the game you're playing. And if you think

you're playing chess, then you're going to find it difficult, I think. I know some people will argue with that and say, "No, it's like chess. You just don't read the market right." That's fine.

I've listened to a lot of podcasts from traders who have been around for a long of time because they're the people I want to listen to. I've never heard one telling me that it's like chess or suggests that it is in that ballpark where it is about precision.

That's not saying that there isn't any out there. I am just saying I haven't heard any. I am not going to say that doesn't exist. I mean that is not possible. The way of evidence that I've seen suggests otherwise. I'm open to listening.

I don't want to trade in an echo chamber where everybody is just agreeing with me. I am more than happy to listen if someone's telling me they can read the market and they scalp and they have a 1 to 1 risk/reward. I'll listen to it and take it in because that's only going to make me examine my own process better. It's like political parties — was it Democrat and Republican in America?

Walter: Yeah. In America.

Darren: If you're a Democrat and you only listen to Democrats and you think everything the Republicans saying is wrong, that's not a good way to think about it. It's kind of suggesting that any ideas outside your political beliefs can't possibly be true and that's really not a good way to improve. Same in business, same in trading.

Walter: And I see that all the time in the forums, Darren. You go to the trading forums and you'll see some guy, he'll show what he is doing. He'll share, "Look, this is working for me. Check it out." Or, "This doesn't seem to be working well. I wonder if anyone could help me with this."

Eventually, you'll get some other yahoos in there. They'll talk about why so and so's an idiot because "This will never work. You have to trade my way." You know it's just crazy! It's just the same thing. It's just like having these political discussions and debates.

It's the same thing in trading. It's just so crazy to me how people don't see it for what it is. To me, it's just everyone sees the markets in a certain way and they're all trading it through those filters. Trading it through their beliefs and you don't get any points.

It's not like an evangelical thing. If I can bring so many traders on the forum to my way of trading and thinking then I win, I'm going to get the big payout in the big pit up in the sky or whatever. It's just crazy to me.

Darren: I mean, if you are going to look at me and you... We have very strong views to agree and we have very strong views that disagree.

Walter: Yup.

Darren: I can learn about my trading by looking at the elements that you use, that I disagree with and I can actually learn something from that. I might not agree with some technical analysis ideas that you use but I can look at that and say, "Well, they may not be a huge edge in that technical analysis but there might be a psychological edge in that and other elements might be making it profitable." I can accept that it's something that disagrees with my beliefs but can still be used...

Walter: That's all the time we have in Part One. In Part Two, we're going to get into the fear of a better option. What that means for traders. You'll also get the best way to look at your trades. This is kind of weird but once you start to look at your trades this way, you'll be able to analyze them much better.

We'll talk about what poker players can teach traders, a specific recommendation for traders. The reality of big trading returns and what all money managers must do to mentally prepare for bigger returns.

And, when trading for others, your job is not to make the most money for your clients. Believe it or not, we'll see what your job is instead and your one critical skill that predicts your longevity as a trader.

How long will you trade? How well will you trade? It all basically boils down to this one thing. All these and more in Part Two.