EP140: Trader vs Charts Part 2 of 2

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Darren: I don't think you'll learn from one losing trader. You learn from a lot of losing traders and yourself if you're not making money and try to find the connection with what you have in common. That's the good place to start...

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. This is Episode 140 of the Two Traders and in this Episode. This is Part Two of the two-part series, you're going to see the problem with high win rate trading and why you need to look out for this.

Also, why most traders lose in forex and how you can use this to your advantage as a trader. How children can help you find the best trade setups and why this works. What expert poker players do differently? These are the pros and you'll see why this is an advantage and this can help you in your trading as well.

And finally, the weird way to see forex volume on the charts. All these and more in this Episode of Two Traders.

Darren: Do you think there's any validity in this idea that you can watch individual candles and work out the sentiment and use that rather than having a strict pattern-based way of approaching the market? You can read the wicks and the movement, and essentially just use that as your trading strategy. So you know when to get in and you can read when the market's going to reverse and then you get out. Do you think there's any validity in that or do you think that's a good way to trade for some people?

Walter: Yeah. I'm sure there's something there but to me that's almost like the guys who study the order flow or the way that the volume might ticker. I don't know if that's what you mean. But to me, that's the same realm. Like apparently, Jesse Livermore did that and there are some people, I think a lot of them are future's traders or index traders.

They might even just look at tick charts where the candle is based on a certain number of ticks. 1400 ticks or whatever, something like that. That's kind of what they're doing, I think. They're watching the flow and seeing if they think the momentum dies out or whatever.

I'll never forget there's a trader called Emmanuel. He's in the UK and he's in the forum too. I remember I was talking to him one time, this was years and years and years ago. And then he said "I saw all this volume coming in..." I said, "What do you mean you see all this volume coming? How do you see the volume on the chart?" And he was talking about the chart.

You know, it printed a really big candle. He was using that as a proxy for volume. I thought that was interesting that, that's how he viewed it. He viewed these big candles as volume candles. Right? That was a lot of push behind that. I suppose it makes sense but it never really.

Darren: For me, it would be like a poker player who made his bets on reading the other poker players who sat playing with him. And the amount of money in the pot made no difference to him. For me, I'd look at my cards, I see my hand. I see what the flop is. I look at the other players and from that I'm going to work out whether I'm the best player who sat on this table or not.

However, much I've got to put in or however much I'm going to win in return, is I'm not going to consider those things because I'm most likely to win the hand. You know, that's how I see it. And I don't see long-term successful poker players that play like that.

Walter: Yeah. I wonder why. Is that just a losing strategy?

Darren: Yeah, I think so. I think it's a bit of an illusion.

Walter: I think sometimes you can trick yourself into seeing patterns. For example, let's say, you're long on a market and you're in this long position and you know, the candle closes. It's a nice big strong bullish candle so you're in profit. And then sometimes you can think, "Okay."

When you watch the next candle print, if it starts going higher, right as the new candle starts and it starts looking really strong, a lot of times you might say, "Ah okay, that's not a good side, that's probably going to end up by the time this candle finally closes. It's probably look completely different and it's probably going to go against me a bit. Be a bit of a bearish candle."

And likewise the opposite, "If I'm long and the market's behind me, I've got some profit booked." You know in theory, if the next candle starts to go a little bit bearish at the beginning, I might feel okay about that. But it's more likely than not going to close bullish in my favor, in other words.

Sometimes we see those things and it may seem like that's always the case but it may not be. I know you would say that in general about almost everything. I think, sometimes, we can kind of trick ourselves into seeing these things and kind of relying on them but that's where the data comes in.

You've got to use that logical side of your brain to say that, "Well, typically if the market is in an uptrend, the next candle starts off. If the first 10% of the candle goes against that trend. Then that candle will generally close." That's a testable hypothesis. That's something you can definitely go and look at just like moving your targets further out or whatever sort of thing.

All those things can be tested. Once you test them, that'll helps you to believe in it and convince yourself that you should stick with it when times get tough.

Darren: I don't remember who said it but it was one scientist who said that, good ideas essentially, you should be able to explain it to a child and the child should be able to understand it. If that's true, if the child gets it, then you've probably got a pretty solid rule set.

I try and kind of force my trading into that and just kind of strip away everything down into some really simple core ideas. Then I'll accept that everything else that's going on in my head is just psychology and bias and they're trying to complicate it. But if I stick to those core ideas, in the long run that should be fairly robust. I think it was **Fairmont**, was it **Fairmont?** (The quote was John Taylor "It is true intelligence for a man to take a subject that is mysterious and great in itself and to unfold and simplify it so that a child can understand it.")

Walter: I don't know.

Darren: I can't remember, a Mathematician or a Physicist or something. But I like that idea and I've seen you do that on your webinars before. Where you look at a chart and you say, "I've got a few friends on Facebook who were mad into, they're never traders before, then mad into bitcoin."

So initially, they were into bitcoin and now they have been into that for about a year. Now, they're into technical analysis and bitcoin. And they post these youtube videos of bitcoin analysis, and these videos are like 2 hours long with millions of studies going on. And you know, I say to myself, "Look it's going down. Look for sells."

It's going down at the moment, it's clearly obvious. You can talk all day about where it might bounce, whether this is an indication that the bounce is starting or not. But if you just simplify it and say, "Well, at the moment it's a shot." And then look for cells in that condition. You don't really need to go any further than that. I don't believe you need to go any further than that. I could be wrong but I think that, that's a good approach to the technical side of things.

Walter: Yeah. That's where I came up with my biscuit test. There was a trader, he was on a forum or something. All these traders were like, "How do you determine the trend?" He said, "Well, I only go long when it's a bullish trend or it's bearish, sells. When it's a bearish trend and so forth." And everyone will say, "Well how do you know?" "Well, I have this proprietary trend indicator."

At that point I've seen enough to know. You know what? A lot of these things you can use. There are 75 ways to calculate a moving average but you know what? They're all going to tell you pretty much the same thing and it's the same in this trend indicators.

I'm really lucky because I'm at the point now, where my kid's old enough that he can tell looking at a line whether it's an upline or a downline. That's all you really need, isn't it? You just need to have someone who doesn't have all the crap in their head that you have in your head. And just say, "Look, is that line going mostly up or mostly down or is it just up and down. Up and down?" That's all you really need. I really believe that it's all you really need.

There are people that pay for proprietary moving averages. Just imagine that. It just seems beyond bizarre. Why would you pay? Really, you would pay for the Jurik moving average or the Demark moving average this and that? People pay a subscription to get these moving averages. How can it really be different from any other moving averages? It's all what you believe in, I guess.

Darren: I think, if you're still asking what the period of the moving average they use in this, then you're still in the wrong mindset. That's my opinion.

Walter: Yeah. That's a good test. Alright, the next question we have here for our session here is the losing trader. What do you learn about trading from losing traders, if anything?

Darren: What you should look for is what did they have in common, I think. I don't think you learn from one losing trader. You learn from looking at a lot of losing traders and yourself, if you're not making money. And try to find the connection with what you have in common then that's a good place to start.

Walter: So things like focusing on the wrong areas like digging for gold in the wrong spots perhaps. Perhaps having the mathematics of your strategy all out of whack or whatever like the expectancy or whatever it is.

A lot of times, as a beginner trader you focus on the wrong things like win rate. You really want to win. You need to ask yourself, "Why is it that I really want to win? Why is it that I want to have such a high win rate?" Because that's really going to help me here. If my goal is to profit, why is it going to help me to be the type of trader who wants to just win? Is that really or are these goals in conflict?

So you can look at groups of traders. You can see what they're doing consistently, which is typically taking quick profits and taking huge losses and trying to win often. Those are the big ones, I think. And then also focusing on the wrong thing.

These traders who look at, trying to filter out losing trades or trying to optimize which leads to curve fitting. All of these typical errors that we all make in the beginning by focusing on the wrong things and getting it backwards. In terms of trying to filter out bad trades, trying to win all the time. It's all about winning.

If you just pick somebody out on the street and you say, "How does a trader make money?" A lot of times, what you're going to hear is something along the lines of, "Well, you just have to have more winners than losers." Like, that's the assumption, isn't it? So I think, you can definitely look at the groups. See what the groups of losing traders are doing and see what they're focusing on.

Darren: I think one of the difficulties is it's quite hard to find losing traders as well.

Walter: Really? I think it's easy.

Darren: Well, where do you find the losing trader telling you what he's doing? Because whenever I go on forums and read people's trade journals, they're all winners.

Walter: Well, all I do is I just look at the aggregate of the retail traders. That's what I like. The reason why is we know that most of them are losing.

Darren: Yeah. I think if you just Google for retail traders, statistics, winning, losing, there are some really good stuff in the internet. I posted something a years ago. I think, it's from Dailyfx.

They've got all the data from all the brokers and they showed you what the average win rate was and what the average winner was, and loser. You know that sort of data was basically compressed everything down into a simple idea. Most retail traders have a win rate of 50% or above but, their losers were much bigger than their winners. That really compresses everything you need to know from losing traders into sort of one simple idea.

Walter: Exactly and they tend to fade the trend. So if you see them all grouped up, all bunched up going long a particular market. Like 78% of the traders are long the EUR/USD then go and switch on the chart and what you'll notice is that the EUR/USD will be in a downtrend.

It's like magic how often that happens. What they'll do is they take their profits on the little retracement moves during a trend. They're all thinking that they're going to catch the end of the trend but at the end what they'll end up doing is -- it's just like giving a personality to a cat. I'm just creating my own image of what's going on -- but they tend to, if you watch the stats, then tend to take profit on these little retracement moves.

So, the EUR/USD maybe falling 1200 pips but it may retrace a 110 pips and that's where these losing traders are taking their little profits. Trying to find that reversal point. So it's really useful because it will fluctuate. So if you watch the numbers, it will fluctuate. You will see it if they're all grouped up in one side then it's a trend in the other direction.

When the numbers change and they start to get out of that fading trend position, that usually means that it's sort of the end of that retracement move. It's like having your finger on the pulse of where they're getting and also you can see these. You can see where the orders are too.

Some brokers will let you see that. Like **Saxo Bank** in **Oanda. I'll put the links in the show notes for everyone.** So you go in there, especially if it's made a new high and a new low, it's really obvious. If the market's been kind of choppy and up and down then it's a little bit tricky. But basically, what you see are where their stops are.

You see where all the losing traders' stops are. You can say, "Okay, if the market spikes there, then a lot of people are going to get cleaned out of this." So it's really kind of interesting. You can definitely concoct a strategy out of just these data. Like, where are the orders and what proportion of the traders are long or short, for sure.

Darren: Yeah. It's like a different chart basically.

Walter: Yeah. It's like a sentiment. It's like a different chart. Exactly. We can learn a bit from losing traders. What about this topic of trading what you see or trading what you think? I would have to say, just guessing from hearing about your style that you would just say, yeah. I just basically trade what I see and try not to let the thinking get in the way. Is that fair?

Darren: Very much so. Yeah. For me, it all has to be planned out in advance. It has to be as close as systematic as possible. For me, I'm just looking to see the correct setups and the correct exits and then just executing. I don't trust what I think at all.

Walter: It's tricky, isn't i? I think, it's helpful to keep your thinking inside the box of your rules. So if your rules are, that I only take a trade when the market retraces and does this particular thing then you do that.

People will ask me these questions, something along the lines of, "Hey Walter, do you ever just look at the market and just base on whatever price action is doing, just take a trade?" I've heard that. What's interesting about that is that, I did. But when I did that, I was losing money. It's like, you feel like I should know what the markets going to do. Therefore, I just go ahead and look at it, figure out where it's going and then do it.

Alright, that's a wrap. Thanks so much for spending time here and we'll see you at the next Episode of the Two Traders Podcast. Happy Trading!