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The Evolution of a Trader
and the Lure of the Holy Grail
Part I

At some point, if they last long enough, all traders discover that successful trading is not the inevitable result of a good trading strategy or system. If all we needed was a good system or indicator we would all be successful traders. Yet clearly we are not, far from it, there are very few traders making their living consistently from the markets.

Technical analysis is a vast and well researched subject. Many minds have poured their heart and soul into searching for the holy grail of trading: the system, strategy or indicator that will yield to them unlimited wealth and glory. Yet with all this depth of knowledge readily available, trading profits remain as elusive as ever. If we were to take a scientific approach to evaluating technical analysis we would have to conclude that it is of limited value.

System vendors though, will continue to exploit our desire to believe that there really is some secret knowledge that will enable us to transform into super traders as soon as we expose ourselves to their secrets. It is a very tempting fable to believe in, it offers an answer to our prayers and our problems, it engages our ego (how great to conquer the markets and escape the drudgery of work etc..) and it allows us, briefly, to relinquish the painful self-doubt that we are unconsciously fighting.

The system vendors flatter and deceive us in the same way that street sellers sell exclusive, stolen perfume, which is usually no more than bottled water. We are easily deceived when we are told exactly what we want to hear.

Let us pretend that a system vendor really has a system that works as they claim. Let us also assume that his cup truly does ‘runneth over’ and he sincerely wishes to share his knowledge as a way of repaying his good fortune; and finally let us assume that he charges a fee, not for his own gain, but to ensure that his clients really take him seriously. Assuming all this, does it make sense to make his knowledge available in a book or a seminar?

We all have discovered that trading is not easy and one of its biggest challenges is following our signals, be they based on an indicator or our intuition. It is so easy to doubt our signal when the moment to act arrives, we hesitate and the opportunity is gone. So having learnt our hero’s strategy we then have to become adept at implementing it, which brings with it a whole host of problems that only become apparent as we attempt to execute the system. Now the issues that get in the way of implementing a strategy are not issues that any system vendor can resolve in a book or a weekend.

In fact the system vendor would have it that all our previous problems with trading result from not having a good enough strategy, which of course is a problem he can easily solve for us. The basic premise of the system vendor is that all the psychological issues in trading, in fact all the problems we have in trading, are a consequence of not having a really good system or strategy. This I do not believe, it is like claiming that we could all play golf like Tiger Woods if we had a certain set of golf clubs, or that we could achieve the same level of success as Pete Sampras if we used the latest racket.

We all need golf clubs to play golf or a tennis racket to play tennis, no question; but they do not determine our success. Tiger Woods would still be a great golfer even if he was handicapped by playing with antiquated clubs, but no novice golfer is going to be transformed into Tiger Woods simply by buying the right equipment.

If the system vendor has perfected the perfect trading system and if he has developed the skill to successfully implement this system, surely the most effective method to share his good fortune would be to create a fund that we could all invest in. That way the vendor can ensure that we all receive the full potential of his system without any effort on our part, without us having to overcome the bigger challenge of implementing the system ourselves.

Presumably for every client who learns the system only a few manage to implement it successfully, with the fund option every client gets the full benefit of the system; so why not start a fund, a much better way to share the fruits of his good fortune. The other question that is frequently asked is why doesn't the vendor display the full results of trading the system? Instead we get comments like '97points this morning, thanks a £...grand!' from a satisfied punter. In order to evaluate the effectiveness of any system we need to be able to see the results of every trade, over a significant period of time, so we can compute the necessary statistics.

If a vendor has done so well, why can't they publish their own verified trading results? Some do, but only in snippets, we need the whole lot; and why not if they have had the results they claim, what have they to lose?

The reason that vendors do not publish their results and the reason that vendors do not start funds is that their systems do not work consistently. They work periodically sure, they can find numerous examples of successful trades, but they do not work consistently. But even if their systems did work consistently they do not publish their results or start funds as they have not been able to overcome the implementation and execution hurdle, they are not good traders. They may be good researchers, good teachers and good sales people, but they are not good traders.

System vendors can teach us how to market products, they can teach us how to write sales letters, they can teach us how to present, they can teach us many things, but they cannot teach us how to trade.

They cannot teach us how to trade because they have not learnt how to trade, all their energy has been spent researching and developing systems and the only way to make money from these systems is to sell them. Learning to trade has nothing to do with researching and developing systems anymore than designing golf clubs has to do with learning to play golf.

Trading, like any endeavour, any skill, is learnt through doing. We learn through trial and error, through having experiences and evaluating and learning from those experiences; and of course, our learning is accelerated if we have the support and advice of someone who is further along the path of development. The skills of trading are to do with execution, and implementation, the doings of trading. The problems we all experience in our trading, problems that are popularly referred to as the psychology of trading, are the challenges of trading, it is these problems we surmount as we develop our trading skills.

The skills of execution are the equivalent of the basic shots and strokes that make up the games of golf or tennis. There is no point having a strategy in tennis if we can't execute the complement of strokes we need to be able to play. Knowing that we need to hit the ball deep and move our opponent from one side of the court to the other is of no value if we cannot hit the basic shots. There is no point having a trading strategy if we can't trade and no novice trader knows how to trade. The problems we all experience in trying to make money trading stem from the fact that we do not yet have the skills of a trader. If all we needed was a system we would all be wealthy; no, we need to become traders.

If you have read the Market Wizard books by Jack Schwager, you will notice that each of these very successful traders has a different approach or system, yet they are all successful. Their approach is not the common factor that determines their success. The common factor amongst them is their trading skills. What are these trading skills and how do we develop them in ourselves, that is the million dollar question.

We need to look to ourselves for the answers, what are the problems that we experience, what are the behaviours that result in our lack of success and our failures? It is overcoming these behaviours that move us along the path of the trader. The basic rules of trading are cut your losses short and let your profits run, a losing trader is not doing one or both of these. When we have learnt to ruthlessly cut our losses and have the restraint to run our profits, only then are we traders.

And it is during the process of our development, as we demythologise the market, that we start to have the observations and make the distinctions that lead us to evolve and refine our trading strategies. If we could have the strategy of a successful trader delivered to us on a plate would it be of any value to us? I don't believe so; in the same way we could not implement Tiger Wood's strategy, or Pete Sampras's, because we do not have their skills, so we could not implement another traders strategies without their skills. We must develop as traders first and in so doing we will naturally evolve our own unique style and approach to trading success.

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