SUN TZU'S THE ART OF WAR FOR THE MODERN SPECULATOR

Adapted by

OLUMUYIWA AKIN-OGUNDEJI

Those who have read SUN TZU'S classic treatise, THE ART OF WAR will readily acknowledge how the principles of strategy outlined by the Master can make a powerful impact in the lives of those who master them.

All human activity is a form of competition, even if only competition to master the self. Self mastery is the greatest competition in existence; this is why so few succeed at this most profitable of professions… Speculation.

As a Currency speculator and a student of the principles of strategy and how they can be applied to everyday circumstances, it seemed only right for a version of the premier treatise on strategy to exist for my brethren.

Speculation is a thinking man's profession, it is a profession for those who possess the desire and will to master themselves; for only after self-mastery has been achieved will the rewards of successful speculation manifest themselves.

The secret of successful speculation is… Be-Do-Have!

Thus this book; this is not a book on methods or systems or Forex per se, this is a book on transformation.

Only when we "become" can we find it within ourselves to "do"; consistent doing is what makes it possible for us to "have" the rewards of successful speculation.

I wish you a successful journey on your path to mastery of the art of speculation.

You have chosen to be a Speculator, this is a honorable profession.

Success does not come easy

Only a few from the multitude will succeed in this profession.

To be a success you must master five factors.

Study these factors as you commence your journey to the top, you must commit to mastering these five factors.

- Determine your Philosophy
- Determine the prevailing economic Climate
- Determine the Terrain within which you Speculate
- Determine Command
- Determine your Methods

Everything starts from your Philosophy, why are you a Speculator? What higher purpose governs your life? How do you perceive the world of Speculation?

The answers to these questions are crucial, for they will determine whether or not you will operate with calmness, confidence and in the zone.... Constantly respecting the Markets, yet not hesitant to seize opportunities to profit when they appear.

Next you must determine the prevailing Economic Climate under which you operate. Are you in a recession? Are you in recovery? Are you in expansion? Are you in a period of consolidation?

The answers to these questions are crucial as they will determine the risk appetite of the populace... are they risk averse or risk tolerant? This in turn determines how the decision makers at the Institutional Financial Firms will make their decisions. These are the people who move the markets; you must be in harmony with them.

Thus the prevailing economic climate will determine how much risk you can assume... will you be aggressive or conservative.

Next you must determine the terrain from which you operate. Are you in a range? Are you in a trend? Are you in a period of consolidation? Are you in a period of congestion?

The answers to these questions are crucial. Proper identification of your terrain will determine the potential for profit.

In a range or trend, the possibility for large gains is high, in a period of consolidation small gains is the norm, in a period of congestion market movement is erratic... stay out of the markets and wait for order to return.

In a range, when the lows and the highs have been objectively defined, then we can go short at supply (resistance) and go long at demand (support), thus we can accrue large gains from riding the market swings within the range for as long as it lasts.

In a trend we will only seek to take positions in the direction of the prevailing trend. Trends can go far and fast, riding trends presents the possibility of large gains from a single entry.

In a period of consolidation we will seek for small gains, taking positions only in the direction of the previous trend. The norm for periods of consolidation is for market action to continue in the direction of the previous trend.

In periods of congestion when market action is erratic and chaos prevails, prudence demands we stay out of the markets entirely until order is restored, the successful Speculator knows that chaos is death to a trading account.

Next is Command. You are in command, you make the decisions - final responsibility for your success or failure as a Speculator rests with you.

Will you be disciplined and consistently apply your predefined set of rules? Will you possess the emotional control to consistently act in your own best interest? Will you possess the courage to act on your edge without hesitation, doubts and reservations? Will you possess the patience to allow your predefined setup to mature without jumping the gun and prematurely pulling the trigger? Will you objectively assess the markets and possess the alertness to spot opportunities as they unfold?

The answers to these questions are crucial, because unless "you" the commander is prepared to be a Speculator, your actions as a Speculator will surely lead to disaster.

Finally are your Methods. Your methods shape your decision making process, they provide the rules by which you as a Speculator will operate with confidence in a situation of uncertainty. Your methods will determine your profitability or ruin as a Speculator.

Your method is the totality of your trading system… the overarching philosophy, your entry strategies, your trade management strategies, your exit strategies.

Your method determines the kind of market you will seek to exploit, it determines the market sessions within which you will be active, and it determines the time frames you will use to speculate.

Your method will determine whether you possess a viable edge that will ensure profitability over time, it will provide the rules which you will succeed or fail by.

Only by consistently and flawlessly executing your method can you increase the odds of short term success, build competence and confidence and achieve the financial rewards you desire in the long term.

These then are the five critical factors that will determine your success or failure as a Speculator. You must seek to master these five components; you must always operate in a context of harmony.

This then must be your operational strategy;

Be alert to spot opportunity.

Be patient to conserve your capital as you wait for the proper time and conditions to take a position.

Be bold in pulling the trigger.

Be objective in managing your trade.

Exit according to your rules, never as a result of fear or greed.

Learn the Speculators Axiom… Proper Preparation and Planning Prevents Pitifully Poor Performance, this is the 7 Ps.

The more the odds are in your favor, the greater the possibility of success; the less the odds are in your favor, the greater the possibility of failure.

Only by consistently taking high probability, low risk positions can you confidently expect financial growth.

Thus another Speculators Axiom is proven… Plan your trades and trade your Plan.

A "good" position is swiftly positive, a "bad" position drags on in negative territory; "good" positions must be managed to maximize gains, "bad" positions must be managed to minimize loss.

Risk management is crucial to long term survivability. Unless risk is properly managed, you will dig yourself into a hole. Only when you properly manage risk on each and every position will you open the way to potential gain.

A position can have only one of four possible outcomes;

- A small loss
- A small win

- A large win
- A large loss

Only when large losses are totally eliminated can you prosper as a Speculator.

While small losses may be acceptable, yet their frequency must be kept to the absolute minimum. Small losses can ruin an account as surely as large losses.

Your bread and butter will be provided by your numerous small gains, the possibility for fabulous wealth will be provided by your less frequent large gains.

This then is the formula for success as a Speculator;

- A low frequency of small losses.
- A high frequency of small gains.
- A comfortable number of large gains.

Only when this formula has been mastered will your long term success be assured. This comes as a result of flawlessly executing your method over and over again.

Assuming untenable positions is a surefire path to swift ruin… the inevitable failure will give rise to emotional responses; emotional responses will cause you to react emotionally instead of reflexively. You then lose control and become a tool – a "victim" of the markets instead of a crafter – a "victor" in the markets.

When the five factors are properly aligned a Speculator can face the uncertainties of the future with confidence. The importance of harmonious alignment of the five factors is as follows;

- A Speculator who understands himself and is in harmony with the five can confidently take a hundred positions without fear, since he is master of himself and understand the markets he speculates in.
- A Speculator who understands only himself and is deficient in other components of the five has his odds greatly reduced… he will spend the duration of his career as a breakeven speculator, neither gaining much nor losing much.
- A Speculator who understands neither himself nor the markets he trades is doomed to painful failure.

Invincibility lies in the defense, the possibility of victory lies in the attack; therefore defense is key. This boils down to proper risk management, only when risk management is mastered can we confidently face the uncertainty of the future.

The only factor of a position completely in our power is the amount of risk we assume; thus the possibility of invincibility, long term survivability lies in proper risk management and position sizing.

Once risk management is in place, we patiently wait for the markets to present us with opportunities to profit by conforming to our predefined setups. This implies that we cannot force the markets to “give” us opportunities; we must patiently and alertly observe the markets in order to “spot” opportunity.

When in a position, the primary goal is to eliminate risk; this is achieved by moving stops to breakeven as swiftly as conditions dictate. Thus in strongly trending terrain greater leeway can be allowed as short sharp retracements are common; in weak and lazy terrain, breakeven must be achieved as soon as possible since this terrain is a prime condition for market reversal.

Assuming a short position after a period of strong bearish action, or assuming long position after a period of strong bullish action is the hall mark of the “herd”. Thus all Speculators who follow the herd are doomed to receive the rewards of the herd… mediocrity.

Consistently profitable Speculators take the opposite action; they assume a short position only after a period of bullish action and assume a long position only after a period of bearish action. In essence they go long at demand (support) and short at supply (resistance). This is the hallmark of the consistently successful Speculator.

“**G**ood” speculation is boring; it's totally unexciting. It is the act of flawlessly executing your edge over and over again. When this is consistently executed, account growth is steady and not dramatic; drawdowns are minimal, few and far between, large wins are also not plentiful.

When price action conforms to the intermediate market direction and both are in harmony with the prevailing trend, it creates an almost irresistible force capable of blasting past any levels of support and resistance.

Proper timing allows us to wait for this synchronicity, when we do this the outcomes of our positions are almost guaranteed. Yet proper timing is a function of proper planning, which includes patent waiting for the markets to present an opportunity to profit.

The future is unknowable thus we must plan our entries with the utmost care, only by doing this can we create a framework of order, structure and certainty within which to operate long term as speculators.

The outcome of any one trade is unknowable; therefore we must wait for price action to be aligned with market direction and both to be in harmony with the prevailing trend. A position may be assumed under either when a technical setup is fulfilled or when a price level has been attained, never on both. This condition weights the odds of success significantly in our favor. Therefore as consistently profitable speculators we must wait for the markets to come to us, presenting us with opportunities to profit.

Properly identifying regions of demand (support) and supply (resistance) is crucial. Only when this has been done in advance can we calmly and confidently wait for the markets to react at these areas. These areas will either hold or fail by laying plans for either scenario in advance we know the possible outcomes… this builds confidence.

Failure to do this will leave us scrambling to assume a position after the markets have reacted; this will immediately place us at a disadvantage. Any sharp reaction by the markets will leave us panicked and fearful, prone to making multiple unforced errors.

Long term success as Speculators does not come from assuming many marginal positions but in conserving your capital to be used for the fewer high probability low risk setups the markets constantly offer to the patient speculator.

Thus these high probability low risk positions can be assumed with greater leverage than would seem prudent to the "herd". In this way the fewer high quality positions will greatly increase the size of our trading account.

Recall the 7 Ps, thus a setup we have foreseen can be executed with confidence, boldness and without hesitation; these positions will possess a greater probability of success all things being equal. Likewise since we are prepared for the alternate outcomes, we can swiftly act if the position does not work out according to plan A, by switching rapidly to plan B.

The average speculator fails by developing strategies for not losing, therefore he does not lose much but neither does he gain much; the consistently profitable speculator on the other hand develops strategies for winning while minimizing the impact of losses, therefore he wins much and loses little – by managing his positions to maximize gains and minimize losses.

This ability to develop winning strategies is the essence of having plan A and B and also a contingency plan in case either scenario fails to develop.

Remember… our opinion or bias is mutable; it must be swiftly discarded if the harsh light of market action proves our opinion different. Until the markets conform to your analysis do not assume a position, but simply observe market action as you patiently wait for an opportunity to present itself. This is known as shadowing the markets.

Mastery of our emotions is crucial to our success as speculators. We must seek to always be calm and confident, eschew fear, anxiety and greed. We must build our methods on repeatable, conservative actions; this will keep us humble and respectful. Only by patiently possessing our souls with discipline can this be achieved.

Speculators must master their body's energy cycle. Only assume positions when your body's energy cycles are high. If this peak period fails to coincide with a session of high volume and volatility in your chosen markets, then you must devise strategies to profit from the less optimal terrain you will operate in.

It is the height of folly for a speculator to engage the markets on the market's terms; you must only assume positions on your own terms. This means only assuming positions when your energy and concentration are at the peak levels; else you will be operating at sub optimal levels and stack the odds against yourself.

You must be calmly relaxed as you wait for the markets to conform to your expectations, you must be patiently disciplined as you wait for your setups to mature after it begins to conform to your expectations. In this way you will master your emotions and avoid jumping the gun.

Conserve your strength by patiently waiting for the high odds setup. You can then prosper in leaps and bounds by entering fewer positions.

The terrain in which you operate determines the entry you will use, your profit objectives and amount of risk you will assume thus;

- In a range, define the supply (resistance) and demand (support) zones; prepare to go short on reaction to resistance and to go long on reaction to support.
- In a trend, define the direction of the trend then wait patiently for price action and market bias to conform to the direction of the trend; seek long entries at pullbacks during an uptrend or short entries at rallies in a down trend.
- In consolidation, set small targets taking entries only in the direction of the previous trend. In essence this is scalping.
- In congestion stay out of the markets.

You must know yourself absolutely…

- Are you prone to anxiety? Market retracements will cause you to doubt and prematurely exit positions which would later become profitable.
- Are you prone to greed? You will fail to note the clear warning of trend exhaustion spikes, thus you will maintain your positions too long and thus sudden market collapse and reversal will swiftly erode your profits.
- Are you fearful? Market action spikes will hit your stop loss orders, since fear of taking a loss would force you to use stops which are too tight. (Note that losses must be taken and not received. A consistently successful speculator will proactively exit positions at a loss if necessary; it is only by proactively taking a loss that the fear of loss can be mastered). Thus fearful people use tight stops in lieu of proactive trade management. Thus they are ruined by the death of a thousand tiny losses.
- Are you prone to overconfidence and risk taking? You will jump the gun and assume positions under less than optimal circumstances; this will force you to "sweat out" your positions. The accumulated stress will burn you out and bring an end to your career as a speculator.
- Are you doubtful? You will assume positions on the advice of "experts" since you will not trust your own judgment. Thus you will be condemned to taking long positions only after a period of sustained buying and

taking short positions only after a period of sustained selling. This will doom you to mediocrity as your late entries will provide the profits for the speculators bold and confident enough to assume positions before you.

The consistently profitable speculator is bold not brash, confident not cocky, composed but not timid, patient not overcautious, reflexive not reactive. You must master yourself in order to properly manage your positions and prosper as a speculator.

The climate under which you are operating is of utmost importance. Favorable climate can expand a range, prolong a trend, shorten a period of consolidation and transform congestion into consolidation. Unfavorable climate can distort a range, shorten a trend, prolong a period of consolidation and turn a period of congestion into a chaotic nightmare.

Successful Speculators live by the maxim…"the market is always right". We must let the markets prove or disprove the validity of our opinions. We must be quick to change our opinions if the markets prove otherwise.

When laying plans we must always ensure that plan B takes account of the other side of the position; thus we assume a position with plan A, having plan B in reserve and a contingency plan to hedge our position and acquire more gains in situations of temporary price action spikes and corrections which do not invalidate plan A.

Only the truly humble are teachable, only the teachable are flexible, only the flexible are adaptable, only the adaptable survive.

The consistently profitable speculator follows the rules of his method unswervingly, he has come to realize that failure to do so will lead to ruin. Speculation without having a set of rules in place will lead to swifter and bigger ruin; only by consistently following the rules of your method can the odds be swayed in your favor and the foundation laid for long term success.

The rules of your method must be yours, and their validity must be completely understood otherwise;

- You will not strictly follow the rules. Failure to consistently follow your rules will erode your confidence by saddling you with a string of unnecessary losses.
- Each loss in turn will make you more desperate for a win. This increased desperation will lead to taking greater risks by assuming marginal sub optimal positions… leading to increased losses and thus a vicious cycle is initiated.

Clearly define your method and then stick to the rules, seek only to flawlessly execute your edge over and over again. Consistent execution of your edge will ensure that the rewards you desire swiftly come to you.

By only assuming high probability low risk positions you will ensure;

- You suffer no large losses.
- You will proactively take a low number of small losses.
- You will accrue a high number of small gains.
- You will accrue a steady stream of large gains.

You must correctly assess the prevailing climate and terrain in which you operate, when you do this;

- You will take small gains without hoping for more than the present market conditions can provide.
- You will swiftly accept small losses without allowing them to escalate into large losses.
- This ability to take small losses and accept small gains paves the way for large gains and ensures your long term survivability as a speculator.

Thus the golden rule of speculation is proven… "Preserve your capital at all costs"; everything else is subordinate to this primary goal.

By only assuming a position when we have a clear understanding of climate, terrain and method can we make success certain… this assumes that philosophy and you the commander are also optimal.

Remember;

- Avoid assuming a position during periods of market congestion.

- Be conservative in setting profit targets during periods of consolidation.
- Be aggressive in pursuing large gains during periods of strong market trends.
- Be nimble in assuming and liquidating positions during periods of market range.

Anticipating and participating in market breakouts can be accomplished by positioning yourself during periods of consolidation. This occurs as a result of a confluence of climate, terrain and method; this is accomplished by timing your entry through proper use of market intelligence.

A breakout or breakdown can lead to spectacular short term gains, but by its very nature, breakouts must be approached with care. You must be in position before the breakout; if it starts without you, then you must let it go and wait for the retracement.

Breakouts that occur during periods of high volume last longer than breakouts that occur during periods of low volume.

Wait patiently for your setups to mature, precipitous entries will dissipate your financial and psychological capital. A successful speculator knows how precious capital is… financial and psychological; thus he takes utmost care to preserve and nurture both.

Therefore time your entries, patiently conserve your capital and when the odds are on your side… pull the trigger without hesitation.

The potential for significant profit must exist before a position is assumed, whether this potential is achieved or not is secondary. Never take a position with a low profit potential. Thus a successful speculator scalps by taking a small gain than he might wish for due to the prevailing climate and terrain, never scalping for the sake of scalping.

No condition lasts forever in the markets;

- Congestion may turn into consolidation.
- Consolidation may lead to a breakout or breakdown.
- A breakout may start a new trend.
- A trend may turn into a range.

Capital unwisely expended on marginal opportunities leads to setbacks; continuous correction of setbacks is wearisome to the soul and depletes resources.

A wise speculator therefore will always bide his time, he will never chase the markets but will wait patiently for the markets to come to him.

A successful speculator embraces the maxim… "The markets are in continuous motion; the markets will always present me with another opportunity to make a profit". The successful speculator is patient; patience is not passivity or the lack of emotion, rather it is the application of discipline in the mastery of self.

The patient speculator is the successful speculator; like a master sniper he will patiently shadow his target, setup a kill… but is willing to wait for another opportunity if conditions deteriorate and the setup becomes marginal. The master sniper lives by the creed… "1 shot-1 kill".

The master sniper only pulls the trigger on a "sure thing", even so the consistently profitable speculator only assumes positions on a "sure thing". The "sure" position is a position in which the odds are so heavily stacked in your favor that the very worst outcome possible is a draw.

Any speculator can assume an infinite number of positions if the worst possible outcome is a draw. Therefore to be a successful speculator you must be a patient speculator… one in control of his emotions.

Market intelligence must be avidly gathered, carefully sifted then thoughtfully processed.

Market intelligence will provide you with a feel for the climate and terrain in which you are operating, allowing you to adapt your methods to the changing conditions. The wise use of market intelligence will;

- Eliminate large losses.
- Turn small losses into draws.
- Turn draws into small gains.

- Turn small gains into large gains.
- Turn large gains into spectacular coups.

Accurate market intelligence will allow you to position yourself and calmly wait for the market to come to you, once your setup is triggered and a position has been assumed, the "herd" will jump in after you and ensure your gains.

Forewarned is forearmed.

To properly assess market intelligence you must possess an understanding of your target markets. This involves an understanding of the climate and terrain, without this understanding you will be unable to form informed opinions and judgments and will thus be at the mercy of the "experts".

In the final analysis you must make your decisions based on your opinions, your opinions are shaped by the quality of market intelligence available to you. A successful speculator treasures quality market intelligence and does not begrudge the cost of acquiring it.

It is crucial to understand that while the Financial Markets exist in a state of Chaos, there are windows of opportunity when order prevails. The successful Speculator has trained himself to wait patiently for these windows of order… Periods of opportunity from which to profit from logical decisions. This must be your goal as a Speculator – to patiently observe the market, spot these periods of opportunity, flawlessly execute your edge by assuming a position, calmly manage the position and unhesitatingly exit your positions when your predefined exit criteria has been met.

As you begin your journey to success as a speculator, you will accumulate gains and you will suffer losses. This seesaw is the bane of most speculators, they are whipsawed by emotional highs and lows… euphoria as gains accumulate, black despair as losses pile up. Hence the final secret of successful speculation… nothing lasts forever. The successful speculator faces gains and losses with the same creed in mind… **THIS TOO SHALL LIKEWISE PASS AWAY!!!**

