Davit’s Important Concepts About his Edge!

Philosophy and Psychology

- The main reason I wanted you guys to watch Mark Douglas is to understand few key principles

  The 5 Fundamental Truths of Trading:

  1. Anything can happen – including, trade(s) going against you.

  2. You don’t need to know what is going to happen next to make money - that means putting the Edge in play and seeing the outcome.

  3. There is a random distribution between wins and losses for any given set of variables that define an edge - self explanatory.

  4. An edge is nothing more than an indication of a higher probability of one thing happening over another – for example, Pivots levels and zones like 61-100%.

  5. Every moment in the market is unique – obvious.

“TRADING IN THE ZONE” by MARK DOUGLAS

1. Anything can happen.

Why? Because there are always unknown forces operating in every market at every moment, it takes only one trader somewhere in the world to negate the positive outcome of your edge. That's all: only one. Regardless of how much time, effort, or money you've invested in your analysis, from the market's perspective there are no exceptions to this truth. Any exceptions that may exist in your mind will be a source of conflict and potentially cause you to perceive market information as threatening.

2. You don't need to know what is going to happen next in order to make money.

Why? Because there is a random distribution between wins and losses for any given set of variables that define an edge. (See number 3.) In other words, based on the past performance of your edge, you may know that out of the next 20 trades, 12 will be winners and 8 will be losers. What you don't know is the sequence of wins and losses or how much money the market is going to make available on the winning trades. This truth makes trading a probability or numbers game.
When you really believe that trading is simply a probability game, concepts like right and wrong or win and lose no longer have the same significance. As a result, your expectations will be in harmony with the possibilities. Keep in mind that nothing has more potential to cause emotional discord than our unfulfilled expectations. Emotional pain is the universal response when the outside world expresses itself in a way that doesn't reflect what we expect or believe to be true. As a result, any market information that does not confirm our expectations is automatically defined and interpreted as threatening. That interpretation causes us to adopt a negatively charged, defensive state of mind, where we end up creating the very experience we are trying to avoid. Market information is only threatening if you are expecting the market to do something for you.
Otherwise, if you don't expect the market to make you right, you have no reason to be afraid of being

wrong. If you don't expect the market to make you a winner, you have no reason to be afraid of losing.

If you don't expect the market to keep going in your direction indefinitely, there is no reason to leave money on the table. Finally, if you don't expect to be able to take advantage of every opportunity just because you perceived it and it presented itself, you have no reason to be afraid of missing out. On the other hand, if you believe that all you need to know is:

1. the odds are in your favor before you put on a trade;
2. how much it's going to cost to find out if the trade is going to work;
3. you don't need to know what's going to happen next to make money on that trade; and
4. anything can happen;

Then how can the market make you wrong? What information could the market generate about itself that would cause your pain-avoidance mechanisms to kick in so that you exclude that information from your awareness? None that I can think of…

<u>If you believe that anything can happen and that you don't need to know what is going to happen next to make money, then you will always be right.</u>

Your expectations will always be in harmony with the conditions as they exist from the market's perspective, effectively neutralizing your potential to experience emotional pain. By the same token, how can a losing trade or even a series of losers have the typical negative effect, if you really believe that trading is a probability or numbers game? If your edge puts the odds in your favor, then every loss puts you that much closer to a win. When you really believe this, your response to a losing trade will no longer take on a negative emotional quality.

3. There is a random distribution between wins and losses for any given set of variables that define an edge.

If every loss puts you that much closer to a win, you will be looking forward to the next occurrence of your edge, ready and waiting to jump in without the slightest reservation or hesitation. On the other hand, if you still believe that trading is about analysis or about being right, then after a loss you will anticipate the occurrence of your next edge with trepidation, wondering if it's going to work. This, in turn, will cause you to start gathering evidence for or against the trade. You will gather evidence for the trade if your fear of missing out is greater than your fear of losing. And you will gather information against the trade if your fear of losing is greater than your fear of missing out. In either case, you will not be in the most conducive state of mind to produce consistent results.

4. An edge is nothing more than an indication of a higher probability of one thing happening over another.

Creating consistency requires that you completely accept that trading isn't about hoping, wondering, or gathering evidence one way or the other to determine if the next trade is going to work. **<u>The only evidence you need to gather is whether the variables you use to define an edge are present at any given moment.</u>** When you use "other" information, outside the parameters of your edge to decide whether you will take the trade, you are adding random variables to your trading regime. Adding random variables makes it extremely difficult, if not impossible, to determine what works and what doesn't. If you're never certain about the viability of your edge, you won't feel too confident about it. To whatever degree you lack confidence, you will experience fear. The irony is, you will be afraid of random, inconsistent results, without realizing that your random, inconsistent approach is creating exactly what you are afraid of. On the other hand, if you believe that an edge is simply a higher probability of one thing happening over another, and there's a random distribution between wins and losses for any given set of variables that define an edge, why would you gather "other" evidence for or against a trade? To a trader operating out of these two beliefs, gathering "other" evidence wouldn't make any sense.

Or let me put it this way: Gathering "other" evidence makes about as much sense as trying to determine whether the next flip of a coin will be heads, after the last ten flips came up tails. Regardless of what evidence you find to support heads coming up, there is still a 50-percent chance that the next flip will come up tails. By the same token, regardless of how much evidence you gather to support acting or not acting on a trade, it still only takes one trader somewhere in the world to negate the validity of any, if not all, of your evidence. The point is why bother! If the market is offering you a legitimate edge, determine the risk and take the trade.

5. Every moment in the market is unique.

Take a moment and think about the concept of uniqueness. "Unique" means not like anything else that exists or has ever existed. As much as we may understand the concept of uniqueness, our minds don't deal with it very well on a practical level. As we have already discussed, our minds are hardwired to automatically associate (without conscious awareness) anything in the exterior environment that is similar to anything that is already inside of us in the form of a memory, belief, or attitude. This creates an inherent contradiction between the way we naturally think about the world and the way the world exists. No two moments in the external environment will ever exactly duplicate themselves. To do so, every atom or every molecule would have to be in the exact same position they were in some previous moment.

Not a very likely possibility. Yet, based on the way our minds are designed to process information, we will experience the "now moment" in the environment as being exactly the same as some previous moment as it exists inside our minds. If each moment is like no other, then there's nothing at the level of your rational experience that can tell you for sure that you "know" what will happen next. So I will say again, why bother trying to know?! When you try to know, you are, in essence, trying to be right. I am not implying here that you can't predict what the market will do next and be right, because you most certainly can. It's in the trying that you run into all of the problems. If you believe that you correctly predicted the market once, you will naturally try to do it again.

As a result, your mind will automatically start scanning the market for the same pattern, circumstance, or situation that existed the last time you correctly predicted its movement. When you find it, your state of mind will make it seem as if everything is exactly as it was the last time. The problem is that, from the market's perspective, it is not the same. As a result, you are setting yourself up for disappointment.

What separates the best traders from all the rest is that they have trained their minds to believe in the uniqueness of each moment (although this training usually takes the form of losing several fortunes before they "really" believe in the concept of uniqueness). This belief acts as a counteracting force, neutralizing the automatic association mechanism. When you truly believe that each moment is unique, then by definition there isn't anything in your mind for the association mechanism to link that moment to. This belief acts as an internal force causing you to disassociate the "now" moment in the market from any previous moment filed away in your mental environment. The stronger your belief in the uniqueness of each moment, the lower your potential to associate. The lower your potential to associate, the more open your mind will be to perceive what the market is offering you from its perspective.

- If struggling after 4 months:

  - What steps have you taken to address same issues 4 months later - like now?
  - Do you see an issue?
  - You were aware of it 4 months ago.
  - **Seriously reconsider everything and take a break. I mean take a break from Trading to clear your head. I am removing you from here.**
  - I don't think you were ready 4 months ago and nor are you ready now.
  - ***I can't have people trade my system recklessly.*** Green journey.

Money Management

- It’s not important what I do. My account size could be smaller or larger than yours. Question should be asked how comfortable are you in DD size?
  What is your risk tolerance? 2% 5% 10% account?

  Let me put this in perspective:

  1k account risking 2% is 20 dollars and most feel they can afford risk more since its only 1k account and 5% is only $ 50 - so you still think it’s cheaper then dinner for 2 in decent restaurant – so, you risk 10% $100 - nothing huge deal right?

  Well, everything changes when your account is 20k. Would you risk 10% 2k on a single trade? Not if you got any common sense.
  So, you reduce position to match account size where you feel comfortable. It’s about you - not me.

  I know where I feel comfortable but it’s irrelevant to you. I may risk more because I know more - should you copy me? Not really trade at your comfort risk.

  In motorcycle racing, everyone rides at their levels or crashes. Find yours!

- I think you got several issues:

  1. Failing to understand what batch-trading is: When you take a trade from point (A) to point (B), that could be as large as 100 pips and should be treated as **1 trade**. So, tail end - DD does not mean anything. You are treating it as 1 trade! So, your positions should be small enough to compensate DD and allow time to work in your favor.

  2. Trading pairs that you don't understand like UJ - one of the most difficult pairs to trade. I seldom trade it.

3. Having batch SL as cut-out point. Example EC short, max DD $250 - you get there you get out. If you stay in it and it becomes $1,500 loss, then you got fundamental issue of letting losses run wild.

The reason I prefer working with minimum 2yr traders is because I am assuming you have some things under control like patience, suppression of impulse-trading, some idea of stop loss and position size.

I can't teach that if you don't have already worked out.

Take a break from this system and I mean it seriously.

Trading Method and Strategies

Here are my **AU trades in minor DD** and everything is NORMAL.
It’s a matter of giving a time.
TIME is a factor in trading. Am I in panic? Worry? Not at all! Why?
My positions are fraction of my account size!!!
Do I have an EDGE? Yes - system says random distributions of winners and losses hence I don't know if this trade is a winner or loser however must give it a *time* since its already making its way up.
Was it hard to place this trade? Nope…it was obvious to me.
Was the EDGE clearly defined?
How many trades can you execute in a month like this? 10?
How many will be winners?
Based on my experience 8.
Attached Image (click to enlarge)

You can always reduce positions to match account size.

AU +34pips in 10min **Time waiting**. Anyway, I wanted to demonstrate how normal DD is.
Keep telling yourself that drawdown is normal until it reaches your **cut-out point** and everyone

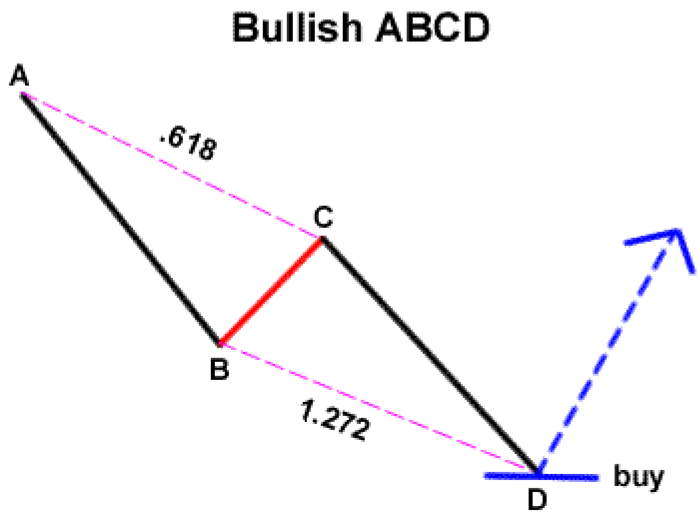
should have one. Otherwise, **market fluctuates and you place 20-30 pip SL you will go broke** taking lots of losses even in a trade that becomes profitable.
Voty just posted recently that 80% of his losses were winners if he gave it a time.

Attached Image (click to enlarge)

Another DD trade AC but love this trade has nice potential for harmonic correction

Attached Image (click to enlarge)

Attached Image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