What does “trade what you see” really mean?

Rolf How To, Psychology 4 Comments 3,963 Views

“Trade what you see” is a phrase traders love to throw around, but the true meaning behind it is mostly unknown. Trading what you see has become a hollow phrase and its true meaning has been forgotten. By the end of this article you will understand why you probably don’t trade what you see either.

Trade what you see vs. Trade what you think

Whereas “trading what you see” describes the optimal scenario in which traders make objective decisions based on sound price analysis, “trade what you think” is the exact opposite and it is how the majority of traders make their trading decisions – driven by emotions, impulses and wishful thinking.

The following three psychological biases explain how our brains are hard-wired to make assumptions about price which are essentially false.

Phantastic Object Bias

“A mental representation in which an imagined scene fulfills a person’s desires to have exactly what (s)he wants. The imagination drives investors to see what they want to see in an investment.” (Tuckett 2008) [1]

Tuckett said it well and it perfectly describes the problems of “trade what you see” vs. “trade what you think”. During and after long price rallies traders realize how much they could have made. This leads to wishful thinking where traders enter a trade based on the hope that the rally will keep going.

How often have you seen a long rally you did not participate in and then suddenly decided that you want a piece of the action as well, although you didn’t have any real trade entry signals? ***In such a scenario, you didn’t trade what you saw, you traded what you hoped would come true.***

Illusion of Control Bias

"Believing one can control and influence the outcomes that one actually has no control over." (Langer 1975) [2]

We have recently talked about [the illusion of control problem] and this bias plays an important role when making subjective trading mistakes.

You make your analysis, **you** follow your rules, **you** pick a trade that fits **your** criteria and then it turns into a loss. No matter how good your analysis and how well you follow the rules, even the best setups will fail.

Traders think that the best setups won't fail and then they get emotionally attached to the trade which, as we all know, leads to major losses and disasters. The chart may tell you that the long trade idea is not working, but you can't accept that such a great setup is failing. ***You don't trade what you see, you trade what you think should happen.***

Anchoring Bias

"Anchoring is a psychological heuristic that describes the propensity to rely on the first piece of information encountered when making decisions." – Investopedia [3]

The Anchoring bias describes a phenomenon where traders suddenly set their whole price chart in relation to their entry price. When price moves against your position, it suddenly looks low and traders believe that a pullback is more likely. Or, when the trade moves in your favor, price starts to look high and traders become scared because they believe that a retracement is inevitable.

You don't trade what you see; you trade from the perspective of your entry.

7 tips to master the concept of "trade what you see"

Tip 1: The 5-seconds rule

Before you pull the trigger on your next trade, pause for a few seconds and ask yourself if this is really what you should be doing. Take the finger off your mouse, step back and objectively look at your chart. The concept of "what would the professional do" is not known to most traders.

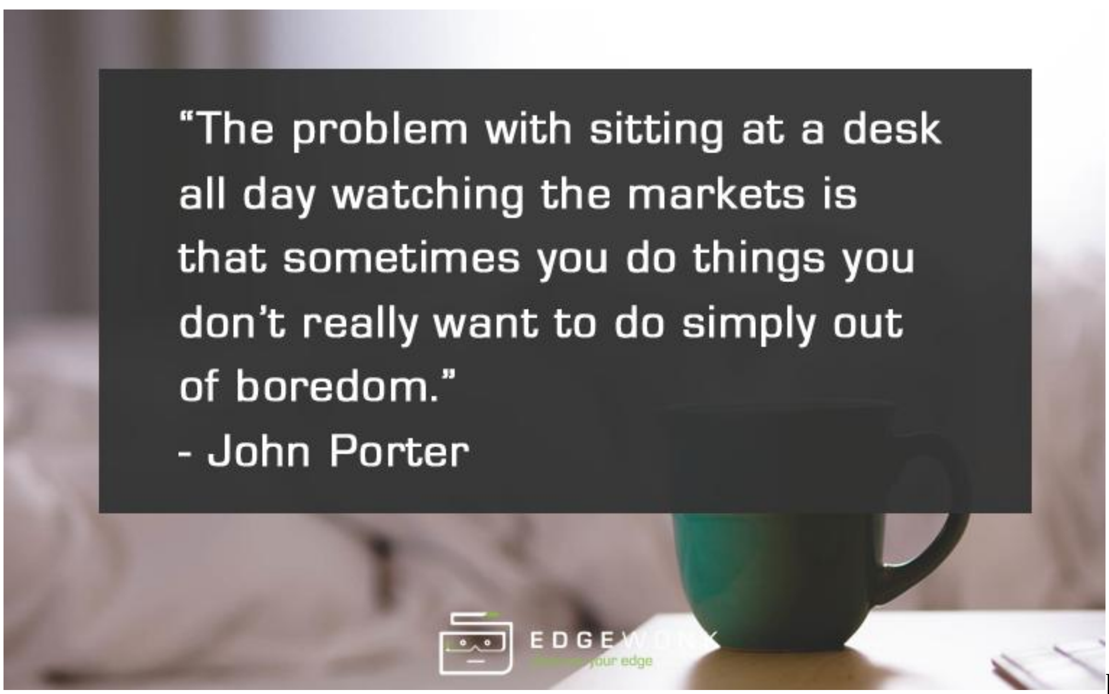
Tip 2: Wait one more candle

This is something that has made a big difference in the lives of so many traders. Many trading mistakes can be attributed to early entries and entering positions that don't meet all the criteria "yet". Just waiting one more candle before making a decision can often turn the performance of a trader around.

Once you give this concept a try you will start noticing how difficult it is and how much your emotions drive your decisions.

Tip 3: Make candle by candle decisions

Mid-candle decisions are often, not always, the result of impulsive and emotional trading mistakes. ***Especially for new traders***, not making mid-candle decisions can have a big impact on your performance. Not many people believe us but once they try it, they can see the difference. Just like the previous tip, once you start applying this concept you will notice how much you are really a victim of impulsive trading decisions – especially when you are glued to a screen all day long.



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Tip 4: Use a physical checklist

We really want to drive this point home because it is so important. Write down all your entry criteria and place the list in front of you. You are less likely to break your rules if you can see them.

Tip 5: Separate trading from charting

We often encourage traders to use a neutral charting tool like tradingview.com (you can follow us on Tradingview here) for their charting and when watching the markets. Traders who only use one platform for charting and trade execution can see their orders at all times and are more likely to make emotional trading mistakes.

We explain how charting and execution should be separated in our latest article: **The perfect trading routine**

Tip 6: Have a trade plan for long and short scenarios

When writing your trade plan, always have a plan for long and short scenarios. Even if the market looks very bullish ask yourself "what has to happen so that I can go short? Where does price have to be." This will help you stay open minded and flexible.

If you are too focused on one side of the market, you always feel the urge to open a trade and act on your opinion.

Tip 7: Blank out other peoples' opinions

As a trader you have to take full responsibility for your actions. You need a consistent approach and trust in your method and your abilities. Be clear about your rules and your approach. Listening to other peoples' opinions has to be avoided. It leads to confirmation bias and trading without confidence and conviction.

Conclusion: What "trade what you see really means"

I hope that it became clear what the concept of trade what you see really means. Most traders re guilty of not knowing how to trade what they see and they are constantly acting on their emotional and impulsive reflexes rather than making objective and analysis-driven trading decisions.

With the help of this article you have the tools that help you become more aware of your trading behavior so that you can avoid negative patterns.

References

1 Addressing the psychology of financial markets >

2 Langer, Ellen J. (1975), "The Illusion of Control", Journal of Personality and Social Psychology

3 Anchoring Bias

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4 comments

1.

JK96

January 20, 2016 at 12:33 pm

Great tips! Really enjoying reading all your blogs

Reply

- 

  Rolf - Tradeciety.com

  January 20, 2016 at 12:35 pm

  Thank you for leaving a comment and following our blog.

  Rolf

  Reply

2. 

Charlie

January 27, 2016 at 2:21 pm

I believe that the greatest prob;em to any trading is that most traders ignore the basic tenets and the first and most important is “IDENTIFY THE TREND’. This aspect only relates to 4hr and longer time scales. If there is no definite trend,dont trade. Confirm the daily and 4hr trend correspond and then you have a good chance of success.

Reply

- 

Rolf - Tradeciety.com

January 27, 2016 at 3:00 pm

Hello Charlie

agreed. Trading in the “wrong” market conditions is a common problem. Trend traders should trade during trends and void ranges. Reversal traders should avoid strong momentum phases and range traders should look for well-defined boundaries that price is moving in between.

Rolf

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In this episode, we give some specific tips how you can manage your emotional capital effectively.

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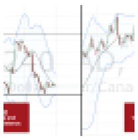
- 

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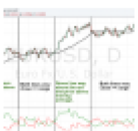
- 

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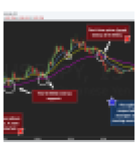
- 

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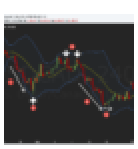
- 

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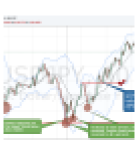
- 

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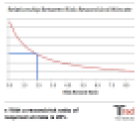
- 

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