

Discretionary or System Trader?

One of the choices that every new trader has to make is whether to be a discretionary trader or a system trader.

Discretionary trading is decision-based trading (the trader decides which trades to make based on current market conditions), and system trading is rule-based trading (the trading system decides which trades to make, regardless of current conditions).

Both discretionary trading and system trading have the potential to be equally as profitable, so the decision should be made based on the personality of the trader. Some traders will instantly be able to recognize which type of trading is more suitable for them, while other traders may need to experience both types of trading before they can make a decision.

Discretionary Pros and Cons

Discretionary trading is decision-based trading, where the trader decides which trades to make, based upon the information available at the time. A discretionary trader may (and should) still follow a [trading plan](#) with clearly defined trading rules, but will use their discretion in taking the trade and how it is managed.

For example, a discretionary trader might review their charts and find that all of their criteria for a [long trade](#) have been met, but decline to make the trade because the volatility for the day is too low, and thus it is highly likely the price won't reach the [profit target](#) for the trade.

The advantage of discretionary trading is that it is adaptive to current market conditions. You may have a great trading system but if you know that it tends to perform poorly when certain market conditions are present, then you can avoid those trades. Or if you notice your strategy has a tendency to perform very well in other conditions, you can increase your [position size](#) slightly during those times to maximize gains.

The drawback of a discretionary system is that many traders are prone to second-guessing themselves. They may actually be very poor at deciding when to trade and when not to, and therefore a more systematic approach would be better. Discretionary systems are susceptible to the psychology of the trader; being [too greedy](#) or fearful can destroy the profitability of a discretionary trading system in a hurry.

System Pros and Cons

System trading is rule-based trading, where the decision to make a trade is based entirely upon the trading system. System trading decisions are absolute

and do not offer the opportunity to decline to make a trade based on the trader's discretion. If the criteria are met, the trade is taken.

A system trader might review their charts and find that their trading systems requirements for a [short trade](#) have been met, so they will make the trade without any further decision-making process...even if their "gut" is telling them it isn't a good trade.

System trading strategies can often be [automated](#) since the rules are so clearly defined that a computer can implement them on the behalf of the trader. Once a computer program has been developed to recognize when a trading systems requirements have been met, the program can make the trade (including the entry, management, and exit) without any involvement of the trader.

The advantage of the system trading strategy is that it is not susceptible to the psychological whims of the trader. The system takes all trades, regardless of the trader's feeling.

The disadvantage is that a systematic trading strategy is not very adaptive. Trades are always taken as long as the conditions are met, which means even in unfavorable conditions trades will be taken. To help alleviate this problem, more rules can be added to the system, although this often results in cutting out some winning trades as well.

Your Style

Discretionary trading and system trading have the same goal: making money. Although they achieve it in slightly different ways, and both have pros and cons. The two systems may even make many of the same trades, but one will likely be better suited to different personalities.

Discretionary trading is most compatible with traders that want to be in control of every trading decision (the entry, [stop loss](#), and the exit). Discretionary traders often feel uncomfortable when they think about giving complete control of their trading to a computer program. Discretionary traders often have backgrounds in artistic endeavors, such as writing and gardening. However, discretionary trading also appeals to traders with controlling personalities, and those who like to be in control in most aspects of their life.

Discretionary trading is also for people who just want to adapt their trades to current market conditions.

System trading, on the other hand, is most compatible with traders who want qualities like speed, precision, and accuracy in their trading strategy. System traders have no qualms about letting a computer program make their trading decisions, and may even value the feeling of lessened responsibility that this

allows. System traders usually have logical personalities, and often have backgrounds in areas such as computer programming and mathematics.

Combining Discretionary Trading and System Trading

It is possible to be a discretionary trader that uses system trading, but it is not possible to be a system trader that uses discretionary trading. For example, a discretionary trader may follow a trading system for their entries and take every trade that the system identifies, but then manage and exit their trades using their discretion. A system trader does not have this option because they must follow their trading system exactly. If a system trader ever deviates from their trading system (even for a single trade), then they have become a discretionary trader rather than a system trader.