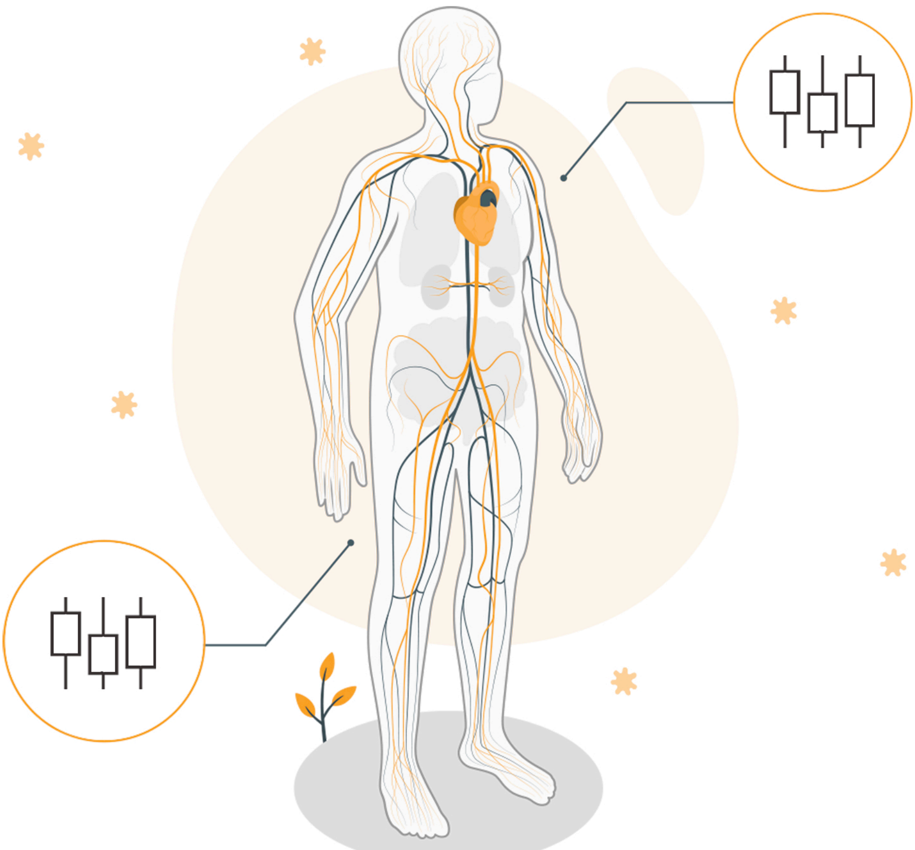
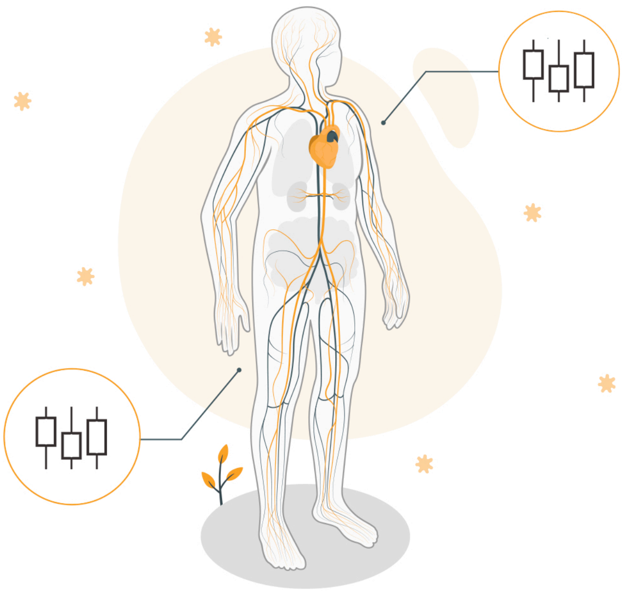
Trader by Design

The secret behind the top 1% of traders success.



BluFX

Trader by **Design**



This will be the most insightful information you've read in a while.

However, there's a big BUT...

If you don't use the information I share within this ...its worthless.

You may as well throw it on the digital scrap heap.

...anywhoo lets continue.

We are not naturally built to be traders.

Trading goes against the majority of what we've been all taught growing up.

Losing...is bad.

Winning...is good.

It's a design fault.

If you take this back hundreds of years.

Winning was literally putting food on the table.

Losing....well, you become dinner.

However, times have changed but humans haven't...

...and if you want to succeed in this industry you need to re-write your current programming

I've been in the industry long enough to hear every excuse in the book.

It's the strategy...eh..wrong

It's the indicator they lied...eh..wrong

Support and resistance doesn't work...eh..wrong

That new strategy....it works just fine for someone else.

That indicator...works just fine for someone else.

Support & resistance...works just dandy for someone else.

So what's the problem here?

Yep...you guessed it.

YOU.

You're probably saying I've heard this a gazillion times...right?

Quick question...why have you not done anything about it then...

...and a few days watching a few YouTube videos on psychology..."is not doing something about it"

Anyway...this goes way beyond that.

Listen...

...you've got to wake up and smell the coffee.

You're not trading against lines on a chart or the latest news from FOMC.

You're trading against people and all their hopes, fears, dreams and desires.

The moment you truly understand this is the moment you will have your break through.

Below, I outline the evolution of trading and if you understand and implement the ideas below, you'll short-cut your learning curve by years.

Fundamental Analysis

Traditionally, traders made decisions based on fundamentals and news. Their financial analysis was based on examination of earnings, dividends, economic data, research and relevant news.

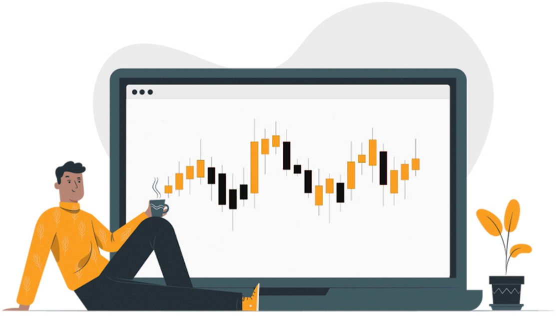
Objective information and news acted as the primary driver of trading decisions.

Before our modern connected era there was a lot of inefficiency in the process of disseminating this information to all participants.

There was asymmetrical dissemination. This allowed those with better information to profit from others with less access to pertinent information.

In time, technology improved and these inefficiencies were largely corrected and as the markets became more efficient a new form of analysis became popular.

Technical Analysis



Early technical analysis is the analysis of charts and visual patterns.

The principles behind it derive from the observation of financial markets over hundreds of years.

Charles Dow originated a form of analysis called point and figure.

There are many techniques used today.

Practitioners of different techniques sometimes ignore other approaches while some combine elements from more than one technique.

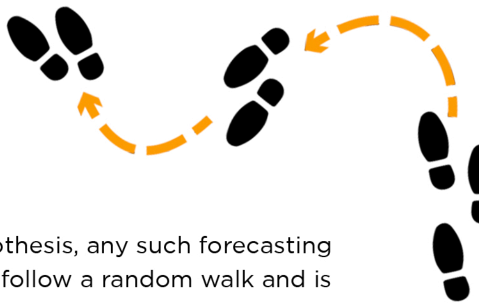
The Only 3 Decisions Traders Can Make

1. When to place a trade.
2. When to close a trade.
3. When to take profits on a trade.

In order to be consistently profitable in forex trading you must understand how other traders trade.

However with the rise of speculation and the advent of zero sum game thinking, it is clear that all participants following classical technical analysis will not all be successful.

Random Walk



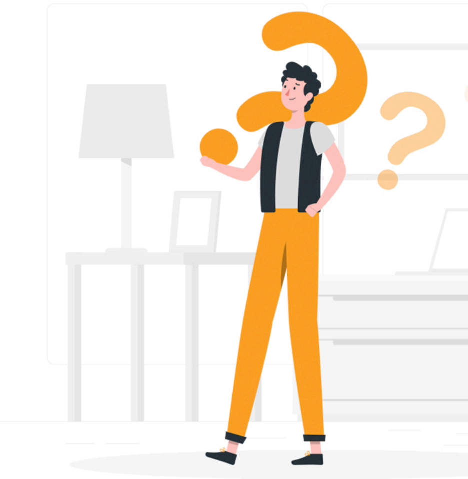
According to the weak formed efficient market hypothesis, any such forecasting method based on past data is valueless since prices follow a random walk and is essentially unpredictable.

As news and information is instantly discounted in the market price only, unpredictable information makes the market move to allow profits.

Therefore the ability to extract profits must reside outside analysis based purely on past history.

This creates a weakness for technical analysis.

The Problem With Technical Analysis



The problem is that basing one's decision entirely on technical analysis is to assume that all the other participants are rational and will act on the available data in a predictable manner that relates to their desire to profit.

However, it is sometimes clear that there is no logic or rationality in anything that happens in the market. This is because the market is made up of a huge crowd of participants making decisions not based on best logic and available data.

Logic is too slow when competing with lots of equally informed traders — the logic we apply is incomplete and if confirmed will be too late to allow us to profit.

Therefore, to beat others, winning traders must make decisions based on incomplete information and data.

A gaming aspect is therefore in evidence due to the fact that the majority of participants have access to the same information, visual patterns and data.

In making decisions based on incomplete information the risk reward ratio is higher, recognizable visual or chart patterns forming can always abort the moment we act on them expecting historical repetition.

Therefore, the best trading decisions tend to become not the BEST answer according to logic but a Best Guess based on the information available at that point.

Using technical analysis then becomes an abstraction type approach rather than a logic based one.

What we see visually on the charts is rarely true and complete but instead it is complex and dependent on current market variables yet we see technical patterns based on our mentally stored templates from experience. We construct an image based on what we expect to see.

Becoming a Random Loser to Be a Winner

This then means that we will be trading primarily on a method based on guessing and therefore should be expecting to take random losses rather than an empirical right/wrong scenario.

Accepting the probability of random losses and acting accordingly is then more important than expecting to be correct based on analysis.

This is why most traders fail using technical analysis to make trading decisions. The ability to profit over time comes not from the best analysis of the market but it comes from being the best random loser over time.

The best random loser in the short-term scenario accepts losses and cuts them short and is therefore often the long-term winner. We must seek to employ the best answer instead of the perfect answer.

Making this a very hard proposition is the fact that we are groomed to win, failure is not accepted or tolerated, losing is bad.

We expect that there is a perfect optimum answer to any problem. Yet we seek to profit in an environment that rewards winning with random losses.

Into this need to change our conventional thinking has come a new field of market analysis.

Behavioural Analysis

And as the problems with technical analysis became even more obvious with the growth in its adherents so do the long-term winners shy away from its classical application. In the last decade another method has gained in significance, behavioural analysis of the important participant groups.

This approach has a basic premise and has some methods.

The Premise:

The premise underpinning the behavioural approach is that markets are made up of participants who are far from rational and logical but instead are driven by various biases and traits related to their upbringing, background and motivations.

We can understand the market better by applying the principles of evolution to financial interactions: competition, adaptation and natural selection, rather than scientific and economic logic.

In this approach, loss aversion, overconfidence, overreaction, and other behavioural biases are in line with an evolutionary model of individuals adapting to a changing environment using simple survival tactics when faced with a problem without an optimal or perfect solution - Our best guess environment

It is important to note that the other analysis methods, fundamental, technical and quantitative will still perform well in certain conditions but not consistently across all conditions.

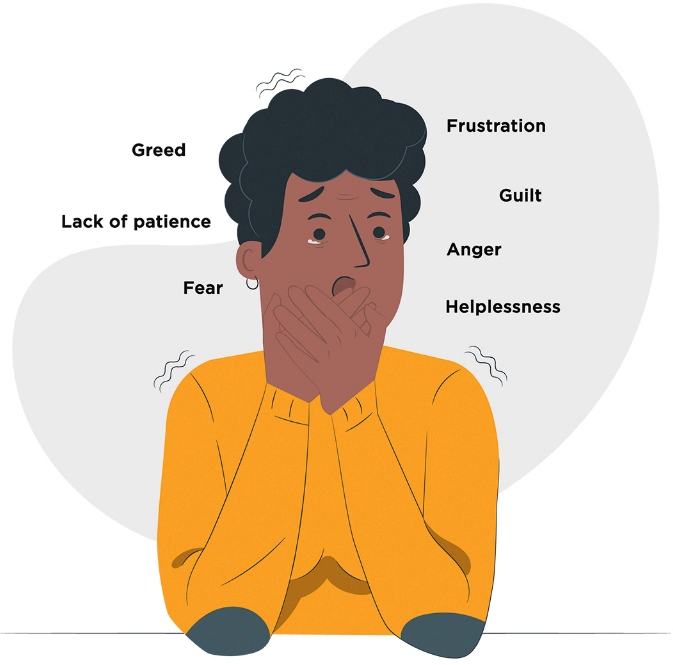
The behavioural approach requires knowledge of all these forms of analysis coupled with a willingness to apply the best answer and not the perfect one in any context.

The Methodology

From the recent field of behavioural finance we can derive and apply a methodology for the FX markets.

The methods are:

Analyse - To identify and understand these behavioural traits in ourselves



Program - To learn to behave in superior ways ourselves in market conditions

Exploit - To learn how to exploit these traits in others.

Analyse Ourselves

This is the part that generally relates to our psychology, discipline and ability to correctly deploy our emotions. We must learn what makes us fearful, stubborn, greedy and impatient. Our motivation drives our behaviour and our behaviour drives our results in the market. Not the market or other traders but our own behaviour.

Program Our Behaviour

With an understanding of our own biases and programming we can then begin to create a road map that allows us to reprogram our mindset, motivations and behaviours into a useful and market optimized set of instinctual behavioural habits that suits our own personality.

Learn to Exploit Others

The final stage is where we apply our knowledge to become students of other participants. We are now actively looking to exploit the behavioural traits in others that lead them to consistently lose money in the markets.

A knowledge of how groups of participants with similar motivations react emotionally in times of stress will be a good indicator of short-term market behaviour which in turn can allow us to design market entry strategies with low risk

Conclusion

Every human being comes with a design fault.

It’s been carried through our genetic make-up over hundreds of years...

...and trading goes against those default designs within us.

You must re-design yourself from the ground up.

How you think.

How you see the world.

How you see the markets and all its participants.

How you react to situations in the markets and in life.

Understanding your behaviour gives you insight into the behaviour of others.

Human beings are emotional and emotion can be monetised in the markets.