

Chapter 17 – Where are you on the Curve ?

A lot has been written on trading psychology and how traders must learn to become better traders. While much of this is true, and it is clear that the hardest part of trading is the psychological aspect, I would like to add my own interpretation.

First, all traders are different. We are all human beings and are all different. Some of us will be office clerks while some will be brain surgeons. And I am sure you will agree that the office clerk will not have the ability or indeed the desire to become a brain surgeon. You should treat trading in the same way. Or, to be more specific, some will be more comfortable with and prefer trading the standard set-ups, while some will thrive on performing your own manual analysis. So forcing some of you to perform manual analysis will make you uncomfortable, while forcing some of you to stay with the standard set-ups will not work either. As individuals, you will be happier staying within your own *trading comfort zone*.

So the question I ask – is one type of trader better than the other ?

Statistically, numbers have been published on the success rate of speculators, especially private and novice traders. Some sources quote that as high as 97% - 99% of these will fail to make money. Therefore my answer is that if both types of trader make money, then both should be considered successful.

Success comes from each individual finding and becoming an expert at the particular technique that suites them best. In this way they can stay within their own *trading comfort zone*, which is unique to them.

For example, some MTPredictor customers trade all of the automatic Standard set-ups and take profits as soon as the trade reaches the 2-3x profit zone. Others take TS1 trades and try to run the position in anticipation of a strong Wave 3-type swing. Others take positions off as a trade moves in their favour, while others add positions. Still others have hybrid techniques and combinations of the above. There is no single (and correct) answer to how to trade.

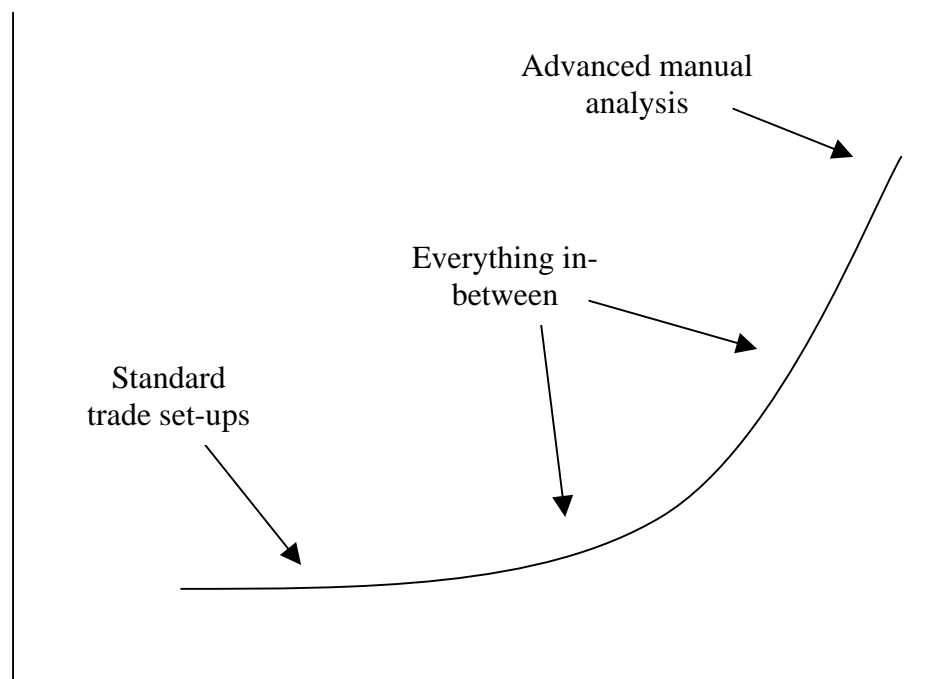
I believe that the single, most important aspect to master in becoming a successful trader is finding a technique with which you are comfortable and then applying it time and time again. Only then can you truly be a successful trader.

This is why the vast majority of traders fail - they skip between techniques, always searching for the one 'Holy Grail'. They may hide in chat rooms trying to pick up morsels of information from other traders. In reality, the really successful traders will neither give nor seek advice.

Ask a successful trader if a market is going up or down, and they will invariably answer – “I don’t know and don’t care”. They have their positions and stops in the market, safe in the knowledge that they are carefully managing their initial risk and that over time their profits will outweigh their losses. More importantly, they are happy and comfortable trading in their own personal way. It works for them, however it may not work for you. So you need to find, and then settle on, your own unique and personal method or approach rather than trying to blindly imitate or follow another trader’s methods.

I could continue, but I am sure you get the idea that once successful you no longer need to seek or give advice, because trading is a unique and personal approach to the markets. The critical point is that to become successful does not mean that you have to learn, or indeed apply *all* the techniques that I, or any other educators apply. You can think of this as a ‘techniques curve’ where different people are happy and comfortable at different positions on the curve. Let me expand on this idea.

Let’s take a look at a potential MTPredictor Techniques Curve™:



Here we have a fictional curve, with the standard trade set-ups at the bottom, leading up to advanced manual analysis at the top and every combination and variation in-between.

Please note: This does not mean that the standard trade set-ups are the least profitable or that you have to master advanced manual analysis to make more money. It is simply that the higher up the curve you go, the more techniques you will have to learn and master.

Some of you will relish the challenge of learning and mastering new and more advanced techniques. Some of you will be perfectly happy sticking with the standard trade set-ups. Both are correct, if they are right for you. I cannot stress this enough - the best way to trade is to trade a system or approach that is right for *you*. This will be different from person to person.

This is why this course contains many advanced and additional techniques that I know some of you will learn and master, while some of you will ignore. However, one theme runs throughout the course and should be the one constant in all of your techniques, advanced or standard: Risk/Reward. Keep the Risk/Reward equation on your side and over time, whichever technique you apply, you should be on a sound footing for long-term trading success.

As you can see, the further you move up this Techniques Curve the more analysis you take on yourself and the further you shift away from the automatic set-ups and the standard trade management guidelines. The more confident you become in the MTPredictor techniques and your understanding of them, the more often you can break the rules, or know when and where you can break or tweak them...

For the rest of this chapter I would like to show some examples of where and when you can bend these standard guidelines as you become more experienced. This step is not necessary or compulsory, but if you are that way inclined these examples will help demonstrate areas where additional experience can help take you further up the curve.

Continued on the next page . . .

In no particular order:

The first and most obvious way to move up the curve is to start performing your own *manual analysis*. This is bulk of Part 2 of the course and is covered in great detail so it only needs a mention here.

As you have seen, although much manual analysis is possible I suggest that you keep to trading off a simple, obvious and easy-to-spot ABC correction. The only manual part for you after spotting the ABC is the WPT profit target projection and R/R calculations. I suggest doing this only on just the very best and most obvious trade set-ups.

Here is a good example on a 60min chart of U.S. T. Notes:

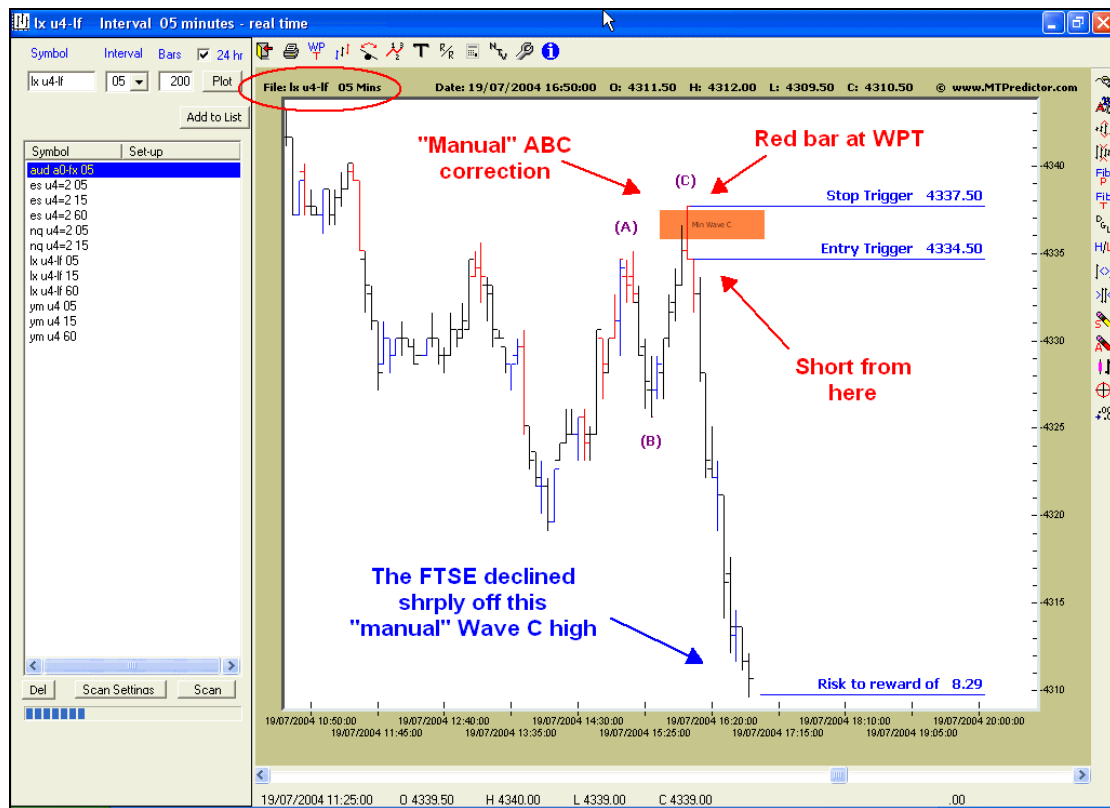


Here the manual ABC correction was three simple and obvious swings. The Wave C reversed right at the typical Wave C WPT (Wave Price Target), with a blue (buy) reversal bar. As such, this was a perfect, textbook example.

The trade moved to the first profit target at the minor Wave 1orA WPT where it was stopped out for a profit of nearly 4x the initial risk (ignoring slippage and commission).

The point here is that the manual ABC was very obvious and clear. The set-up was then perfect with a clean reversal from the WPT. Therefore, the best manual trades to consider are those that are *absolutely perfect* - if it is not perfect, pass on the trade.

Here is another example, this time on a 5min chart of the FTSE-100® (U.K. stock market) index:



Again the ABC was very obvious and easy-to-spot. The reversal was right at the WPT with a red (sell) reversal bar. All in all, a perfect trade set-up.

Please note: These are not simply textbook examples carefully chosen for inclusion in this course. I am suggesting that you *only* consider trades that are absolutely ideal. If it is not perfect, then it is best avoided !

The next few examples fall below full blown *manual analysis* but above the standard trade management guidelines. They show where the standard set-ups and basic trade management guidelines can be tweaked slightly as you gain experience and can react to unique situations that arise when trading.

The first of these is common sense when sitting on a large profit.

Here you have a situation where you are currently short the E-mini S&P500® from an automatic TS3 sell set-up, and the market has not yet reached the first profit target:



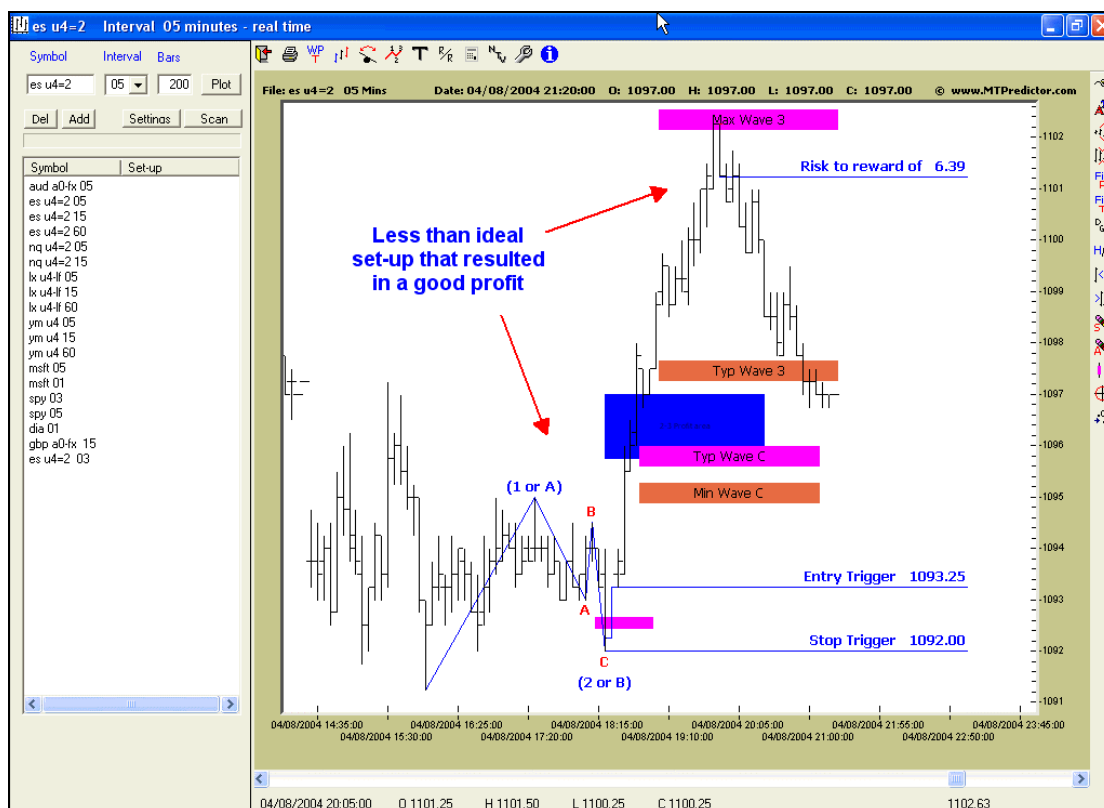
However, your current profit is nearly 7x the initial risk (ignoring slippage and commission) and the profit targets are still well beyond current market levels. So do you follow the standard trade management guidelines and wait?

Any profit over 2-3x the initial risk is a *good trade*. Therefore, 7x is a *very good trade*. So, to me, the sensible course of action would be to bank at least some of this profit safe in the knowledge that it is already a good trade.

Although this does break the standard trade management guidelines, it is clear how experience and common sense can help you decide that, here, a minor teak of the rules is useful.

The next is the initial Risk/Reward ratio.

Here is an example that resulted in a great trade although the initial risk/reward was below the normal 2:1 minimum:



On this 5min E-mini S&P500® chart the blue 2-3x profit zone fell above the first WPT (projected profit target), meaning that the potential profit at the first profit target would be below the 2:1 ideal minimum.

However, the larger-degree trend was up at this time on this day, therefore experienced traders could have decided to bend this guideline slightly, knowing that the probabilities were for a strong up move. Because this was a buy set-up, with careful trade management, they could *bend the rules slightly* and take a less-than-ideal set-up.

Here is another example.

The use of the maximum Wave C WPT in a TS2 set-up.

This should not be considered an ideal set-up using the standard trade set-up guideless, as the maximum Wave C WPT is most reliable when found in a TS1 set-up.

However:



The maximum Wave C WPT on this mini-Dow® short nailed the TS2 high beautifully and resulted in a profitable trade. So the question is, when can you decide to bend this rule and accept such trades ?

The answer is the same as in the last example – when you are anticipating a strong move in the current direction. Then and only then would I suggest tweaking the standard set-ups to accept a less-than-ideal initial set-up.

Summary

I have included several examples in this chapter in which you *could* bend the rules slightly once you become more experienced. Please understand that I am not suggesting ignoring the standard trade set-ups or, indeed, throwing away the standard trade management guidelines. But as you become more experienced and move up the Techniques Curve you can use your own skill and judgement to know when you can bend the rules slightly. I do not suggest doing this all the time - only when you feel the probabilities are on your side for a strong move in the anticipated direction.

The standard trade set-ups and standard trade management guidelines are designed to do the best job over the widest variety of market conditions.

Many of you will feel most comfortable trading and then managing your trades using the standard guidelines. This is fine. However, I know that some of you will prefer to move up the Curve by performing additional manual analysis and also tweaking the standard rules as and when your experience and knowledge allows.

A good analogy is to a skier. Myself I have been skiing for 20 years and as such I can ski anywhere on the mountain. However on your first ski trip you will be using the basic technique of a snowplough. And as such you should stick to the easy green runs. If you try a harder red run you will more than likely get into trouble. However, as you become more experienced and learn more advanced techniques (like parallel turns) more of the mountain will become accessible to you.

Same with trading, if you are just using the basic (standard) set-ups then there will be times when few trades appear. Here patience and discipline is required to only trade the set-up you know and are comfortable with. Straying into more advanced set-ups will just get you into trouble and probably lose you money. The same applies when you are learning to ski, you have to stay on the easier slopes otherwise you will get into trouble. This does not mean you will enjoy your skiing holiday any less than an experienced skier, or indeed you will not make as much money as an advanced trader. But for your current ability you have a specific *comfort zone*, the trick is recognising this and staying within this comfort zone.

As you become more experience you will settle at different points on the techniques curve. Some skiers thrive on deep off piste powder, while others prefer to glide down red runs. The same applies to trading. Everybody's *trading comfort zone* will be different; there is no right or wrong way to trade and no requirement for you to trade in a particular way to be successful. The challenge is find the techniques that you yourself are comfortable with and then become an expert in those techniques, no matter where on the curve you decide to settle.

The final point I would like to make is that you should not expect to become an expert overnight. Nobody in his or her right mind would buy a book on Golf (for example), read it over the weekend, and then expect to beat Tiger Woods on Monday in the US Open. However, many traders seem to expect the same from trading.

It took me many years to become an expert skier, as it did with trading. I have been trading for nearly 20 years now as well, and although you do not need to wait 20 years to become an expert trader, the point is that it does take time.

This is why MTPredictor is different from many trading approaches in that you can apply many different techniques using the software. In a similar way to skiing I recognise that Traders need to start with some easy to apply techniques in the early days. That is why I have designed the automatic trade set-ups in the software. Here the software does most of the work for you. However, as you become more experienced, Part 2 of the trading course teaches you how to apply more advanced techniques. This allows you to take advantage of many more trade set-ups. It also teaches you how and when to amend the basic trade management guidelines to maximise or profits under different market conditions.

What most amateur traders do not realise is that the market has many different phases and these are very different. Some are easy like the green runs to a skier, and some are very very difficult, like a black run. So when they try and apply the same technique to all phases they get into trouble. Have you ever seen a snowplough skier being able to cope with a steep black run ?

The trick is knowing your own comfort zone and then only trading when you are in your own techniques comfort zone. As you become more experienced this comfort zone will change, but this takes time as you learn new techniques. For me this is the one of the biggest challenges that a trader can face. If you can master this and only trade when you have the ideal set-ups (for you at your level), and NOT stray into areas where you are not comfortable, then you have every chance of becoming a successful trader. But to achieve this will require patience and discipline, which are psychological qualities and not trading techniques.

So my advice is to start with the standard trade set-ups. Become an expert at these, then, slowly, as you become more experienced, using Part 2 of the trading course, learn additional techniques and move up the techniques curve. Where you decide to stop on this curve is up to you, but the most important thing is that you recognise this and as such stay and trade in your own personal comfort zone. If you have the patience and discipline to just take trades that fall within your own personal comfort zone and do not fall into the trap of being tempted by trades that are beyond your current level, then you will be on a solid foundation to becoming a successful trader.