

Chapter 19

WEAK HANDS VS STRONG HANDS

What is trading? Have you ever wondered about that? Is it picking out an entry signal that is so good that the market literally has to hand you a fat profit? Actually trading is in many respects a battle between “weak hands” and “strong hands.”

Although with a bit of thought few would say that trading is simply finding excellent entry points, the majority of people who trade in the markets behave as though finding entry points is all that is involved in trading. They act in such a way as to convince me that most have never given much thought to trading beyond a method, system, or technique that gives good entry signals. **THE MAJORITY OF TRADERS ACT AS THOUGH ALL THERE IS TO TRADING REVOLVES AROUND MARKET ENTRY!**

It's as though if they could somehow find *the* method of coming up with entry signals, the rest of the trade would automatically turn out to be profitable.

In fact, to prove that I'm correct in my assessment of how most traders conduct themselves, I submit as evidence the volumes of material concerned with technical studies, cycles, seasonals, astrology, mathematical indicators, oscillators, pattern recognition, volume, and open interest. Additionally, there are Gann time and price studies, Elliot Wave studies, and Fibonacci studies.

If you don't want to make a career of any of those, then you can try Fractals, 5VBTP's, Japanese Candlesticks, Tonal Vibrations, Market Sentiment, Neural Networks and a host of others.

Do any of those mentioned have any value at all? Surprisingly, the answer is a resounding **YES**! Any, and perhaps all, are good for entry signals and therefore, by default, exit signals - especially if you know how to use one or more of them, believe in them, have confidence in them, and have mastered them.

It is not my purpose to condemn entry signals or entry techniques. What I want you to come to see is the relatively small role they play in your actual trading, despite the fact that virtually all the available literature seems to dwell solely upon market entry. My own many years of trading experience indicate to me that the various elements of a trade are made up of the following categories and approximate percentages:

- Signal Identification 10%
- Trade Management 20%
- Risk Management 10%
- Money Management 10%
- Personal Management 50%

I wish to admit here and now that there is nothing scientific in the way that I have assessed and allocated these activities and percentages. Others may have equally good guesses or have performed a more precise study of how much time a successful trader should spend with each of the listed activities. My own trading history tells me the above are at least close to being correct.

What puzzles me most, is how few traders actually recognize that trading involves the activities I have listed. In light of the percentages given above, my question is, "Why do traders spend ninety percent or more of their time with entry signals?" Why do they continue to chase a phantom, the so called "holy grail" of trading? My contention is, that the holy grail of trading, if it were found, would be nothing more than entry signal recognition or an entry identification technique. How do I know that? Because of the many thousands of traders with whom I have come in contact, I have never encountered one who was looking for a holy grail of management. I have never met a trader who was exclusively seeking the perfect way to **manage self** with the object of becoming a winning trader.

I have never encountered a trader who stated, "I am looking for a wondrous way to handle **trade management** so I can be a winning trader." Nor have I encountered one who, in order to succeed, sought to be a prodigious **manager of risk** or miraculous **manager of money**. What I have encountered are hundreds of traders, who through countless hours of backtesting and simulation, seek only to

find perfect trading conditions, entry signals, or identification methods that guarantee that every trade, or even most trades will turn out to be winners. What I have also encountered are dozens of books, and seminars that enforce the search for a guaranteed perfect way to gain market entry. In addition, through the media of literature and presentation, those who produce them feed upon the quest for the perfect entry technique.

The quest is invariably that of 'entry.' What is the magic way to **enter** a trade? What is the perfect entry signal and how do I recognize it? What combination of events will render a guaranteed profit and how do I distinguish them from all others.

If I am correct in my assessment of the amount of time a trader should devote to the various elements of trading, and if it is true that most traders spend ninety percent of their time performing ten percent of the job of trading, is it any wonder that the number of losing traders approaches, and by some estimates exceeds ninety percent?

When a newcomer to trading endeavors to find out how to make money as a trader he or she is immediately beset by a plethora of books, methods, and systems revolving around the concept of entry into the market. The bulk of advertising confronting a new trader involves itself with market entry. The exchanges themselves produce excesses of material on market entry. Can you blame them? They want to bring the individual to the point of market entry as quickly as possible. The sooner you trade, the sooner they make their profits from you.

Brokers, too, want to cause you to quickly enter the markets. The sooner the better, as far as their commissions are concerned.

The shortsightedness of the trading industry has always amazed me. They continually opt for the fast commissions and fees, totally ignoring the fact that if they nurtured traders with information and facts about how to trade profitably, they could considerably lengthen the time over which a trader would be profitable to them.

According to one list vendor, there are approximately five thousand new, would-be traders per month making entry into the field of trading futures. There are many more who try their hand at trading stocks.

What becomes of those five thousand new names? My estimate is that most of them lose their trading capital within a matter of months. Brokers have told me that the average life of an aspiring trader is less than six months. Most of the time during those few months is spent in trying to find out something about how to trade.

The losses come quickly and hard. The recently opened account is closed and the attempt to trade is given up as a lost cause. A few traders or should I say wannabe traders do a rather strange and inane thing at the point where they have lost much, but not all, of their trading capital. Rather than admit defeat, they leave the balance of their trading capital with their broker. This money is at times completely forgotten and in some cases becomes forfeit.

Usually the broker, if he is still around, will try to get the individual to trade that money so a commission can be earned. However, the clearing firms will allow that money to sit there as a part of their float. They can earn interest on that money in the overnight markets. A few die-hards of the original five thousand novices last as many as a few years before giving up. Now and then, mostly through the good fortune of finding a mentor, or even more rarely figuring out for themselves how to trade, a would-be trader actually becomes a profitable and successful trader.

What is it that profitable and successful traders learn that makes them so? They learn to manage themselves, acquiring discipline and self-control. They learn, not a mechanical trading system, but rather a systematic approach to their trading. They learn to how structure reasonable objectives. They learn how to properly calculate where to place stops. They learn how to trade less and make profit more. They acquire the knowledge of which markets and trades are best for them as individuals. They come to appreciate that trading is not a one-size-fits-all, situation.

Many of the things a successful trader learns are not easily or even probably able to be placed in a book. That is why at Trading

Educators we encourage our readers to pursue and advance their trading careers through mentoring—mentoring via group seminars, private tutoring, online chats, and lifetime support which go beyond the limits of what can be placed in a book.

We are ready for you whenever you are ready for us.

I thought you might find it interesting at this, the “half-way point” during your adventure through this trading manual to view the Mission Statement we hold to here at Trading Educators.

Mission Statement

- To show aspiring futures traders the truth in trading by teaching them how to read a chart so that they can successfully trade what they see and by revealing to them all of the insider knowledge they need in order to understand the markets.
- To enable them to trade profitably by training them to properly manage their trades as well as their mind set and self-control.

To accomplish our mission for our students we will educate them so that they know and understand:

- Where prices are likely to move next
- Why prices will move there
- Who and what causes prices to move
- How far prices are likely to move when they do move
- Their own role in the movement of prices
- How to take advantage of the knowledge they receive
- How to properly manage a trade which they have entered

- How to manage themselves and acquire the discipline needed to become successful traders

Benefits for our Clients

- Independence from complicated trading methods, magic indicators, and black-box systems
- Independence from opinion, anyone's opinion, including their own
- Independence achieved through knowing how to read a chart
- Independence through having knowledge of insider actions
- Independence achieved by taking a holistic approach
- Independence coming from knowing how to manage both the trade and themselves
- Independence because they understand and trade what they see
- Independence because they have learned the truth in trading

Students learn only proven methods and techniques, which helps them to preserve capital and create consistent profits

They learn to work effectively and smart. They learn to treat trading as a business: we offer no holy grail or magic systems
They learn to adapt to changing market conditions

They learn a systematic approach **to** trading rather than a mechanical system **for** trading.