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*There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits*

Friday, October 11, 2013

## Drug Your Trading

Trading is a probability game. Right. I do not want to dispute that. I know very well that there are no certainties in Markets, only probabilities.

But I can't agree with the way many traders approach these probabilities. For example, take the case of "Gap closure". People research and conclude that during the past 70% of the time, morning gaps closed. They bet on this probability and act on it. They believe the probability will work in their favor and in the long run and they will emerge as winners.

Usually Traders focus on one important technical set up and start tracking it. They do back testing and forward analysis on this technical set up for a while and compute the basic probability ratios for this. When they find this ratio favorable, they conclude that the pattern has a lasting and significant edge in the Market.

I approach this problem differently. Rather than finding the basic probability of the set up and betting on it, I try to find out the factors that made the set up work. I have drawn my inspiration from the Pharmaceutical Industry.

For centuries people relied on traditional medicines like plant extracts. Many of them were found to be very effective. The problem is these botanicals and herbal preparations contain various bio active components and identifying the exact effective component is a challenge.

First step is the extraction, isolation and characterization of active components in these herbal preparations and finding the exact effective molecule. Toxic studies and clinical evaluation follows before the drug is released. Easier said than done

I feel this is the right way to go. Instead of betting on the basic probability, we must go deep and find out the patterns inside these patterns. Identifying and isolating these favorable conditions will give us the real trading edge, I believe.

Posted by **SMART Trader** at 9:05 PM



## 10 comments:



**shub11** October 14, 2013 at 9:27 AM

Dear ST  
How are you doing?

I have bugged you earlier also regarding BO entries, it seems you take only PB, BO can results into BOF is that a reason I am a bit confused whats the correct approach BO,or PB

Reply



**SMART Trader** October 14, 2013 at 9:49 AM

Shubh

You have to take both BPB and BO as per the situation. Some times some explosive moves will not pull back. Take a direct break trade if you think other factors like. Order flow, critical mass , Market Bias, Space etc are favorable.If you are not sure about it , it is better to wait for a pullback

ST

Reply

**Anonymous** October 14, 2013 at 10:07 AM

Is this article written by you?

Reply



**SMART Trader** October 14, 2013 at 10:16 AM

Anon

Why ? Have you seen it somewhere else ? Let me know

ST

Reply

Anonymous October 14, 2013 at 7:46 PM

check this article:  
<http://www.marketcalls.in/trading-lessons/drug-trading.html>

-anon #2

note: am not the first person who asked you about the authorship of this article.. just googled ur text and found that link

Reply

Anonymous October 14, 2013 at 7:49 PM

<http://www.marketcalls.in/trading-lessons/drug-trading.html>

perhaps your article made a full circle... you should ve posted somewhere in facebook...

Reply



SMART Trader October 14, 2013 at 8:56 PM

Anon 1&2

Thanks for the information.

Let the article reach much more people.

I am happy that a well known personality like R Rajandran found my article worth reproducing. I consider it as an approval and value it

ST

Reply

Anonymous October 14, 2013 at 11:53 PM

Hi ST,

This is what Rajandran has mentioned as the credit for the article-

"Article taken from the facebook group Marketpulse S&P"

Congrats, looks like your article is going places :)

-Anon1 aka Trader\_B :)

Reply



SMART Trader October 15, 2013 at 8:12 AM

@Trader\_B

Check Rajandran Sirs post again

ST

Reply

Anonymous October 15, 2013 at 9:51 AM

Great Sir,

Nice to see that you are getting the credits

Trader\_B

Reply

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