Trading DECISION POINTS

A New Approach to Day Trading Nifty Futures

SMART TRADER

2014,The YTC

New Year is round the corner. For most of us it is time to take new resolutions and start chasing goals only to flame out soon. Why?

We are doing it wrong. We are just chasing dreams. We never cared to define a process to achieve the goal. Discipline or will power is not going to work here. Committing to the process is what makes the difference.

While cooking, we need to follow a recipe. Even for making a cup of coffee, there are certain well defined steps to be followed. In the beginning we may not get the desired results but still we need to finish the process. Stopping the process half way is not going to give us any results.

Coming to trading, we do not need level 3 data, costly computers or the latest version of charting software to trade successfully. These are all excuses we find to procrastinate and delay taking action. We are afraid of failure. Preparations to get something done should end somewhere. It is high time that we stop searching and start doing.

First step is to select a suitable method and commit to it. Before risking money in the market ensure the selected method is working well. There are so many methods in public domain that we can use as a template to develop our own thing. Do not waste your hard earned money unless you trust the structure and tactics completely. Once you select the method trust it and commit to it completely.

Then eliminate all the unwanted things and stay out from distractions. Trading forums and chartrooms are doing more harm than good. These can be helpful in acquiring some basic knowledge at the initial stages but becomes a distraction later. Too much of conflicting information is too bad for our trading. So called discussions will drain our emotional capital.

Knowing something is not enough. We must act on it. It is not a secret that 90% of the people you find on our trading forums have not executed a single trade in their life time. They will read the trade and will never trade the trade. Remember trading is a skill you can learn only by doing. Just start doing it. There will be road blocks and hindrances. Don’t worry about it. We can deal with it as we move along.

As traders we must always be concerned about two things, Time and Capital. Capital includes our emotional capital. Are we making efficient use of our time and capital? We are wasting too much of time on things that make little difference. Still we are searching for new tactics and debating unrelated topics at the forums wasting time and emotional capital.

Now let us focus on the execution. Trading consistency always follows execution consistency. Let 2014 be the “Year of Trading Consistency”. Let us commit to the process. Let us follow the recipe. Let us take massive action to achieve this goal.

Commit, Eliminate and Act

I wish all the readers of “Nifty Nirvana” a Happy and Prosperous New Year

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Actionable Analysis

As far as trading is concerned every analysis should lead to the identification of "Actionable" price levels. If your analysis is not able to identify the price levels where you can take concrete action, it is a waste of time and you are practicing a useless skill.

http://niftynirvana.blogspot.in/2012/09/decision-points.html

My trading revolves around "Decision Points" where I am able to take action with the least amount of risk. Price can react in three ways at these levels. It may accelerate through it, stall at there or reverse from there. My current focus is to develop a "Feel" of the price action at these levels and enter in the anticipated direction without hesitation.

I have seen many traders spending hours together doing analysis. Unfortunately most of their time and efforts are wasted as their focus is not on identifying levels on which they can "React". Ensure your analysis is focused on something easily "Recognizable", "Reactionable" and 'Repeatable" otherwise you are analyzing to paralyze yourself

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Anchoring

If you visit Kerala during monsoon season ,you can find many hawkers from North India selling blankets and sweaters.They come in groups and sell their stock door to door.They follow a unique selling strategy. First Some of them will go to the villages and quote shockingly high prices for their products.They wont reduce their price and will not be able to sell much.

After a few days another group will come. They will move down the price and convince villagers that they are selling at a discount because the season is over and they have to go back to their native places.People think this price as bargain comparing with the old price and happily buy out.

http://www.investopedia.com/university/behavioral_finance/behavioral4.asp#axzz2D3YbKiJE

This behavior is called Anchoring in behavioral finance.Investors are anchoring when they buy a stock that has fallen a lot without a second thought. They are mentally anchored in the price it was trading before the crash. That makes the present price look like a bargain. Such Anchoring could be injurious to your financial health

Price action trading works because of Anchoring. Traders notice the price levels where the market turned earlier and act there again.These are the ideal locations to initiate trades with the lowest risk.Decision Points and Flip Zones are nothing but anchoring points.

http://niftynirvana.blogspot.in/2012/09/price-flips.html

Half of the battle is won if you know where to initiate the trades.

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Automaticity

Many studies have been conducted on expertise development and experts in various fields and today psychologists have a very good understanding about what makes an expert an expert.

The difference between an expert and a novice is that a novice has not acquired the "Schemas" of an expert. Novices are highly conscious of the process and the rules involved in performing the task Experts rely much more on their accumulated experience or Schemas. Once you build a Schema, any error-prone, slow and difficult task can be made smooth and effortless

The short term memory of the human brain is limited. The complex skills we learn are stored in the long term memory as "Schemas". Schemas permit us to treat complex processes as a single element. They are the cognitive structures that make up the knowledge base.

As novice traders we are trying to remember steps or sequence or method rules. This creates additional load on our cognitive processing. That is why we become frustrated and lose confidence. With experience, once you build a schema, performance of the task becomes automatic. This cognitive phenomenon is called "automaticity"

There are no shortcuts in trading other than achieving "Automaticity".

http://en.wikipedia.org/wiki/Automaticity

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Aya Ram Gaya Ram

Every one who is familiar with Indian politics might have heard this term "Aya Ram Gaya Ram".
It was Haryana which gifted this usage to us when then Hassanpur MLA Gaya Lal changed parties three times in a day in 1967. Mr Gaya Lals's feat was immortalized in the phrase " Aya Ram, Gaya Ram."and is regularly used to denote defection and horse trading by politicians.

But for us, the Traders, Gaya Lal is a role model. Watching the developments without any bias and joining the winning team without hesitation is one of the "Must Have" character of a winning trader.Anything can happen in Markets at any time. It is disastrous to approach and trade the markets with a bias.

We are not permabulls or permabears . We are with the winning team. We sit on the fence until the bias is clear and join the winners.

Defection is not a bad thing in Trading.

Thank God. The Anti Defection Bill is not applicable to traders.

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Breakout Blues

From the comments I received recently, I am afraid people are treating the method as a breakout trading method. Most of the traders are getting caught on the wrong foot trying to trade breakouts. This could be due to the higher percentage of breakout trades in my analysis due to the higher market volatility.

Breakout trades are least priority trades in my scheme. I assume the market is in a range all the time and the preferred trades are fading the range extremes. Range is a series of “Failure to break” and “Breakout Failures” of range extremes. These three trade setups are my bread and butter methods.

http://niftynirvana.blogspot.in/2012/04/my-trading-revolves-around-trader.html

People find breakouts attractive because it is very easy to identify and it is extremely rewarding if they get it right. Predicting a successful breakout is one of the hardest tasks a trader can do. In an established range there could be multiple failures before one succeeds. Most of the breakouts do fail and it is better to wait for the breakout to fail or give a breakout pullback rather than making a direct entry.

http://niftynirvana.blogspot.in/2013/05/pressure-plays.html

I do attempt direct breaks. These trades are called PressurePlays. We must be well aware of the context in which the BO is taking place and ensure a higher probability of success. Be aware that trying to predict a BO is extremely risky and better to stay out if we are not confident. Then it is better to go for a Breakout Pullback.

What if the Market runs without a pullback? Then let it go. Markets are for ever.

http://www.niftynirvana.blogspot.in/2012/06/trends.html

Further traders believe trends start when price break out of a range. I do not subscribe to this view. I think a trend always start from a range extreme and run further breaking the other extreme of the range. I prefer to enter at the beginning as against the middle

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Bucking the Trend

When I did a postmortem of my losing trades, I was surprised to see that most of them were counter trend trades. Why has one of the most effective trading techniques fallen by the wayside?

"Trend is your friend" is the first rule I learned when I started this journey. Since then I might have read it thousands of times. Why I am disregarding this old rule and lately trying to trade counter trend and lose money.

Nothing I know about trading is more effective than trading in the same direction the market is moving. Still I do the opposite many times. Is it because counter trend setups looks more juicy and with the trend set ups looks difficult? I don’t know.

Once the market establishes direction, it generally maintains that direction for a period of time.

There is really no need to buck the trend.

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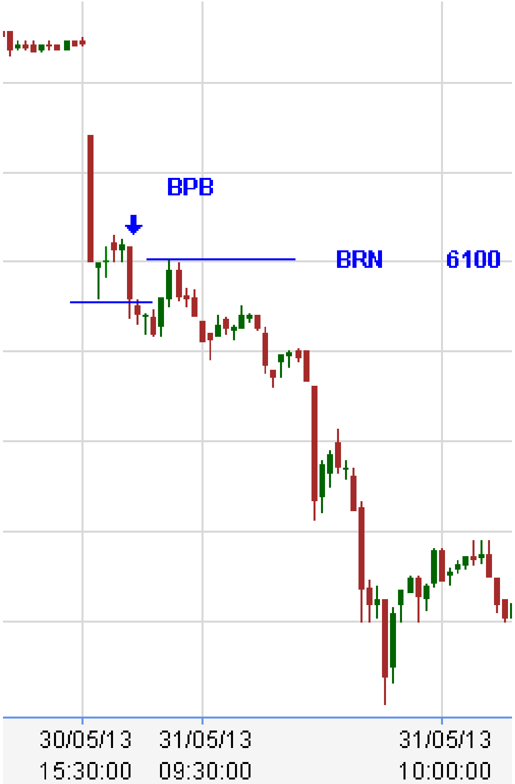
Burn the Chart

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Do we really need charts to trade? I don't think so. Charts are just pictorial representation of the underlying data. Live auction markets produce streaming data and we cut and chart it for our convenience. There is nothing magical about the charts and chart patterns.

There is a misconception among the traders, especially beginners that their success as a trader will depend on their chart reading skills. They spend count less hours perfecting their chart reading skills and waste their time on identifying patterns where none exists.

http://www.niftynirvana.blogspot.in/2012/06/reality-of-market.

Markets move up and down for a reason. Unless we understand the Reality of the Market, no amount of chart reading skill is going to make us consistently profitable. Only the horizontal price levels are important in Markets Everything else is just illusions.

Look at the picture. It is the 1M chart of NF on 31-05-2013. Immediately after the open there was a BPB trade opportunity. I have given the raw data along with the chart.. We can see from the raw data that in the seconded minute nifty broke below BRN and made a low of 6095.40.Then there was a pull back and price failed to go below the earlier low for the next three minutes.. Price attempted to move above the BRN. Now we are ready to short if price falls below 6095.40 with our orders. Next minute we are in.

Before the introduction of computers and live charting the good old tape readers were doing the same thing. They were interpreting the raw data. Thank God. Everything is much easier now.

You do not need the charts to trade. Burn them. But ensure you can read the raw data before you do it.

While posting the link I found out that this one is my 100th write up. Now there are 65 under "Rants and Raves" and 35 under "Structure and Patterns". I really wonder how long I can continue writing on such a small subject. Frankly I do not know if anybody is getting benefited .I hope at least one will.

Capitulation

Capitulation refers to the act of surrendering or giving up. In financial circles, generally the term is used to indicate the point in time where investors give up their hope to recover their losses due to falling prices, and bail out.

Many investors consider capitulation as an indication of Market bottom. Almost every one who wanted to sell or forced to sell has done so. Only buyers are left now, who will eventually drive the prices up.

It is very difficult to forecast and identify the capitulation levels. Often, investors will only agree in hindsight as to when the market actually capitulated.

In trading parlance capitulation is traders throw in the towel and say “Enough is enough”,and exit their current positions either to cut their losses or to avoid further reduction in their profits. In futures markets no body can exit a position without creating an order flow against their own position. Many traders reverse their positions and trade in the new direction.

Short term traders are creatures of habit and with some experience we can identify and pin point where they are going to capitulate and reverse their positions. Our success as a trader will largely depend on our ability to correctly identify capitulation levels.

Learn to identify levels where traders trading the current move realize they are on the wrong side of the market. These are levels from where we can expect a very high probability, non random, directional price move.

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Catch-22

Catch-22 is a satirical,historical novel by the American author Joseph Heller. The Novel was published in 1961.Within the book, "Catch-22" is a military rule, the self-contradictory circular logic that, for example, prevents anyone from avoiding combat missions. "Catch-22" later became an idiomatic usage.

Catch-22 is a paradoxical situation in which an individual cannot avoid a problem because of contradictory constraints or rules·Often these situations are such that solving one part of a problem only creates another problem, which ultimately leads back to the original problem.

Confidence in your method makes all the difference in trading.You will not be able to make money unless you have total confidence in your methods. But the problem is that you will not have confidence in your methods if you are not making money with it.

To become a consistently profitable trader, you need to develop a method that suits your personality. When developing a trading plan , you should know and understand the logic behind each step. This will boost your confidence and will give you the discipline to follow the plan. Confidence is believing in your ability to do something.

All the knowledge to become a profitable trader is not owned or controlled by any one. They are in public domain. Many methods that are available over the net and books can be traded very profitably.

But this is not possible without hard work, determination and a lot of tweaking.

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Chicken Sexing

The book that influenced my trading most is not a book on trading.

It is not a book actually, but a small research paper on skill development This will give you some insights into the trader development process.

The Art of Chicken Sexing : Richard Horsey

Expert chick sexers are able to quickly and reliably determine the sex of day-oldchicks on the basis of very subtle perceptual cues. They claim that in many cases they have no idea how they make their decisions. They just look at the rear end of a chick, and 'see' that it is either male or female. This is somewhat reminiscent of those expert chess players, often cited in the psychological literature, who can just 'see' what the next move should be; similar claims have been made for expert wine tasters and experts at medical diagnosis. All of these skills are hard-earned and not accessible to introspection.

But is there really anything unusual about the chicken sexer, the chess grand master, the wine buff or the medical expert? I argue that there is not. In fact, we are all constantly making categorizations of this sort: we are highly accurate at categorizing natural kinds, substances, artefacts, and so on. We do so quickly and subconsciously, and the process is completely inaccessible to introspection. The question is, why is it so difficult to acquire skills such as chicken sexing, when we automatically acquire the ability to categorize other objects. In this paper, I argue that we have mechanisms for learning the cues necessary for categorization, **but that these mechanisms require selective attention to be given to the relevant features**. We automatically acquire the ability to categorize certain objects because we have inbuilt attention directors causing us to attend to diagnostic cues. In cases such as chicken sexing, where we do not automatically develop categorization abilities, our inbuilt attention directors do not cause us to attend to diagnostic cues, and **our attention therefore has to be drawn to these cues in another way, such as through training.**

Click here to read the rest

http://www.phon.ucl.ac.uk/home/PUB/WPL/02papers/horsey.pdf

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Clash of the Titans

A mistake many Nifty Future traders make is that they forget that they are trading a derivative. Many fail to monitor the Nifty spot Index level. We pay attention to Big Round Numbers on NF but fail to notice BRN on the underlying. If NF stalls at an unexpected area always have a look at nifty spot. Most probably it may be approaching some crucial area

Big players will be having huge option exposures,As you know strike prices are in multiples of hundred . They will fight out tooth and nail to defend their territory. Fierce battles are always fought around these strike prices.

Trade very carefully around these areas,especially on expiry days . There is very high probability of getting whipsawed a lot, if you are playing for ten and fifteen points

I feel ,generally Nifty moves in swings of 20 points. NF levels may vary a little as per market sentiment because of the premium or discount component. . In my experience 3 minute charts are ideal to capture 20 point swings. 5 Minutes are also good .Higher time frames are useless and 1M is too fast for me. Majority of the traders are using 5M charts. I prefer 3M because it gives early signals than the 5M

I will always allow the majority to enter after me and take my position to profit

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Close the Gap

I own and drive cars for the last 20 years and have driven more than 2 Lakh KMs. Luckily, I never had a tyre puncture during this period. I have not changed a car tyre so far in my life time . I have theoretical knowledge reading the owners manual and also have observed many people doing it.I hope these knowledge will help me to do it when need arises.

But there is a big gap between the two.This is the difference between how you believe to act under certain situations and how you actually act when time comes.There is a lot of difference between knowing something and doing something.Everybody knows how to lose weight. but very few do it.Everybody knows the ill effects of smoking but fail to quit.

Trading is not different. Ignorance or lack of knowledge is not the problem for many. A lot of people very well understand how the market works and what the market bias is, but yet very few are able to put that knowledge into practice

It is the application of the knowledge that makes the whole difference.Everything that we need to know is freely available and are in public domain. Problem is most people will never put the efforts and the time to consistently apply that knowledge in their everyday trading process

The sooner you close this gap the better

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Concepts and Tactics

Today Sunil Saranjame of timamo has made a post linking my blog. I would like to thank him for the link . please read it here.

If you have carefully gone through the actual trades taken, you will find some difference in entries and exits. This is because the tactics differ. Very same concepts can be traded with very different tactics. The core concept of my trading is the price acceptance and rejection at trader decision points. Scans, indicators, candle patterns etc are all about tools and tactics to trade the concept. The method I trade is only "one of the ways to trade" this core concept.

The critical thing in trading is basing your trading strategy on a core proven concept.If the core concept is sound, rest is all about tactics. Concept comes first, then only tactics. Deep understanding of concept will help you build a strong foundation on which you can build a trading system. Low conceptual understanding is the main reason for failure in trading

Next time when you read about a new trading method, think about the core concept behind it before jumping on it. You can avoid a lot of frustration and save a lot of money.

Only conceptual understanding will help you to build an enduring edge

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Consistency.

The ultimate aim of every trader is to become consistently profitable. Whether you like it or not, trading consistency will remain elusive for many of us.

http://niftynirvana.blogspot.in/2012/08/slippery-slopes.html

In my opinion there are three stages of trader development.(Read). These are defining the structure, deciding upon the tactics and taking massive action. The third stage is the most difficult one to conquer. In fact it is a never ending journey where you evolve continuously as a trader. Be prepared to go through many drawdown, losses and pain

Trading consistency will be preceded by execution consistency. There is always a gap between the analysis and actually executing the trade. This is the difference between how you believe to act under certain situations and how you actually act when time comes (Read). http://niftynirvana.blogspot.in/2012/04/close-gap.html

Having a good method with an edge and being good at analysis alone is not going to make you a better trader. The ability to push the button under pressure is equally important. The difficulty in trading is physically being able to execute the trades. Proper execution alone can make your edge work.

I can tell you one thing. This is not going to be a smooth sailing. Be prepared to feel a lot of frustration. When you hesitate and skip a good trade, price will go exactly where you expected it to go. In frustration, later you will either make a premature entry or chase a trade and will cause a draw-down. Sometimes you may get a nice entry, but Market will come back, trigger your stop by a tick, and will go where you wanted it to go. Time and again this is going to happen especially if you are trading a discretionary method

Trading is all about execution and it is a lot harder than most people think

http://niftynirvana.blogspot.in/2012/02/execution.html

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Conviction

My trading method is built around a few basic assumptions. I have tried to make it as simple as possible, and as close to the reality of the Markets.

- Day traders control the market on a day today basis. Nearly 90% of the volume is generated by these short term traders. They are creatures of habit and we can predict their reactions reasonably well.

- Professionals play by rules and they buy and sell forcefully at certain price levels which I call Decision Points. These are the levels where one can enter with the least amount of risk.

- Price moves as a result of demand and supply imbalance. Successful trading is reading correctly which side is in control and trade in that direction.

- Momentum moves originate when the critical mass get trapped on the wrong side of the move. Nobody can exit a losing trade without creating an order flow against his own position. Enter where traders trading the current move realize they are on the wrong side and en cash the resultant order flow.

Everything else is tactics. If you have conviction in these ideas, you can make the method work.You should have a process that you believe in. You must have confidence in your ideas. Making money from the market is all about utilizing the opportunity given to you. Market is not a place to procrastinate. Take decisive action to grab the opportunity and try to manage the trade well.

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Cornerstones

Trading consistency will be preceded by Execution Consistency. There is always a gap between the analysis and actually executing the trade. This is the difference between how you believe to act under certain situations and how you actually act when time comes

Execution consistency is all about Decision Making. As traders we are continuously making decisions. Being consistently profitable is becoming better at this decision making skill. The most important and the most difficult thing in trading is to achieve execution consistency

Before we start working on Execution Consistency, we need to ensure that our trading method is robust. Trading method is the foundation on which the whole thing is built. This foundation must be rock solid and weather proof. In my humble opinion, the load of the entire structure rests on the three corner stones. These are Location, Direction, and Exit. Unless you have well researched and proven methods on these aspects you are not going to make any progress.

Location.
There are tons of materials available on the Internet about trading. If you go through this you can find that 90% of the material is about identifying the right location to trade. Fib, Gann, EW. MAs , Support and Resistance are all efforts to identify these high probability locations. All the oscillators and indicators are doing the same thing.

Direction
Once you identify a high probability location, the next task is to identify the direction in which the trade is taken. A funny thing I have noticed is that people are very rigid and not flexible on direction. For example if they identify a location below the current price, they assume this level will give support and try to go long. They are trying to dictate the Market.
Exits
Once you enter a trade, you need to exit it. It could be either at a profit or at a loss. You need to exit where your original premise gets invalidated, sticking to solid money management principles. Profitable trades should be managed without giving back much.

I believe we have a well defined method in respect of all the three aspects. What we need is to trust the method and work on execution consistency. We are many laps ahead of our competition. Believe me, 95% of the people are still struggling to find the right locations to initiate a trade. If you have doubt, read our trading forums and blogs..

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Critical Mass

" Critical Mass" is a widely used term in Nuclear Science.It refers to the minimum mass of fissionable radio active material required to sustain a nuclear fission reaction. In a fission bomb, the fuel must be kept in separate sub critical masses, which will not support fission, to prevent premature detonation.Bringing the sub critical masses together to form a super critical mass to sustain a fission reaction at the time of detonation is a major design challenge

http://niftynirvana.blogspot.in/2012/04/my-trading-revolves-around-trader.html

All the three patterns I trade are reversals. While BOF and TST are directional reversals BPB is a minor reversal of a pull back or counter trend move.For a reversal to succeed there are three conditions.

1.Those who entered earlier in the move are in profit now. They fear the reduction in their profit and start booking profits causing a pullback

2.Now those who entered late start to panic and starts exiting their position in order to prevent loss. .Physical stop loss orders of many traders start triggering. This further fuels the reversal move.

3.A new group of traders expects a reversal and enter. This momentum traders will strengthen the reversal.

This is a chain reaction like the nuclear fission.The greater the number of traders that are positioned in a particular direction , greater the force of reversal.We must ensure that sufficient number of positions are created in the current direction before attempting to trade a reversal.

Ensure Critical Mass.

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Data Packets

Markets are dual auction processes which produce continuous stream of data. Human mind is not capable of absorbing and assimilating this streaming data in real time. Hence we chop this continuous data into small pieces and make convenient packets. Then we make a visual representation of these data packets with the help of our charting programs .

Imagine a soap factory . Mixed chemicals are pumped to the production line for molding. After molding ,each soap is packed . Further ,five of them are bundled together. A dozen of these bundles are then packed in a card board carton..Six cartons makes a stack. These stacks are transported five at a time and loaded to a truck waiting outside. A shipment container can accommodate 12 truck loads.of 20 stacks.. The idea is clear I think.

As a retail user I do not need cartons or containers

I salute the good old tape readers.

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Decision Making

Trading is all about Decision Making. As traders we are continuously making decisions. We need to decide on the price levels to initiate a trade, which direction to trade, where to keep stop loss where to exit etc. Good trading decisions will make money for us .Being consistently profitable is becoming better at this decision making skill.

Any decision making process involves three steps. These are Gathering information, evaluating the necessary inputs and deciding upon the possible action. Information overload is a major constraint for effective decision making. So we need an effective filtering of information inputs to a manageable level. Focus only on the right and important information . Avoid the extra information having negligible impact.

I have seen traders monitoring a plethora of inputs. They track everything you can think of. Elliot waves, Fibs, Gann, Parabolic SAR a dozen moving averages, different oscillators, trend lines and channels. Sorry, I forgot the floor pivots and Camarillas. Supports and resistances are also very important.Oh No, I almost missed the time cycles,Wolfe waves and ORB.

If you mark all these levels on a chart, it will cover the entire chart space. Monitoring all these levels is almost impossible. Even if you do, it is not going to make you profitable. Instead it is going to make you more confused. But it will help the “Trading Gurus” for sure. They can find some or the other reason for all the price behavior and convince you that " lack of discipline" is the root cause of your trading failure.

The sooner you define your decision making process, the better. Decide on your information inputs, how to weigh them, and what actions to take on them.

To attain knowledge, add things everyday. To attain wisdom, subtract things everyday. ~ Lao Tsu

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Deliberate Strain

http://www.niftynirvana.blogspot.in/2012/08/slippery-slopes.html

In an earlier post, I had written about the three stages of Trader Development. (Read). Having defined the structure and identified the methods and tactics to trade, we must acquire the ability to take the right action at the right time. This cannot be achieved without a lot of practice and experience.

The problem is experience will not lead to expertise always. Despite repetition, we may fail to become an expert in what we do. We can find a lot of people who have worked at something for decades without really improving their performance in their chosen profession. What we need is “Deliberate Practice”.

Dr. Anders Ericsson is one of the pioneers researching “Deliberate Practice” .One of Erickson's core findings is that the expertise development is depended on “How one practices” rather than “How long one practices”. An expert breaks down the skills that are required to be an expert and focuses on improving those skill chunks during practice with appropriate feedback.

Another important feature of deliberate practice lies in continuously practicing a skill at more challenging levels with the intention of mastering it.

We need to take "Deliberate Strain" and "Deliberate Pain" for real improvement.

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Discipline

Originally the word “Discipline” refers to the systematic instructions given to “disciples” to train them in an activity which they are supposed to perform. This requires following a code of conduct. In trading parlance discipline means sticking to our own trading plan. While trading, many of us find it difficult to do this as we succumb to our emotions such as fear and greed.

Trading discipline involves behavior change. We must train ourselves not to take emotional decisions and act such a way to protect our own best interest. This is done by overriding the emotional reactions and sticking to our original trading plan.

What motivates one to change the behavior? There are many approaches. The simplest and the easiest one is by changing motivation. One of the oldest ideas in behavior change is people dislike pain and enjoys pleasure. They will do the stuff that reduces the pain and increases the pleasure. This requires an incentive, punishment system which increases the pleasure when they perform a behavior and cause pain when the desired behavior does not occur.

As far as trading is concerned you need not design a motivational approach. It is inbuilt. If your trading method is having an edge and makes money when traded properly, that itself will motivate you to be disciplined. Losses will prevent you from violating your profitable trade plan.

Most struggling traders believe their core problem is discipline. This belief is further reinforced by the “Trading Psychologists” who themselves cannot trade and “Trading Gurus” who can escape the responsibility by blaming your” Lack of discipline” when their methods are not working.

If your methods have edge and they are working, you do not need to make extra efforts to be disciplined or focused. The returns which you get will motivate you to be disciplined.. In my humble opinion, there are no psychological problems related to trading alone. If you have any, it may affect the other areas of your life also.

If you think you have some, go and get it treated as early as possible.

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Doing without Thinking

http://niftynirvana.blogspot.in/2012/05/automaticity.html

There are no shortcuts in trading other than achieving “Automaticity”.This is especially true for discretionary traders. Once you achieve Automaticity, you can perform the task without thinking.,like driving a car.

How often does it need to be performed before it no longer requires thinking ?

Dr Maxwell Maltz noticed that amputees took, on average, 21 days to adjust to the loss of a limb and he argued that people take 21 days to adjust to any major life changes.But recent research shows that it is not sufficient.

Studies conducted by Dr. Phillippa Lally shows that on an average a plateau in automaticity was reached after 66 days. Although the average was 66 days, there was marked variation in how long habits took to form, anywhere from 18 days up to 254 days

So if you are trying to trade a discretionary system, you may need to trade it at least a minimum period of 66 days to be proficient in it.

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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.

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Emotional Baggages

One of the most difficult aspect of successful trading is dealing with the emotions.it is almost impossible to be emotionless as a human being. But if you experience extremely unpleasant emotions during setbacks and euphoric emotions on a big gain,be careful.

pleasant emotions are motivating at a moderate level,but extremes can be harmful.Extreme positive emotions will lead to impulsive decisions and abandoning of risk control methods. Likewise If you are frustrated and worried, you will not be able to concentrate and this will lead to incorrect and costly trading decisions.

If you search the web , you can find thousands of articles written about emotions in trading.Read some and You can find the root cause of all emotion related problems is "Living in the past".We carry the memories of past actions and experiences.Only solution is to start "Living in the present"

Stop worrying about what happened.If you have a good trading strategy,stick to it.Ignore the outcome of individual trades, Ignore CNBC, ignore the experts, ignore the gurus.

Leave your "Emotional Baggages" behind ,Trade your plan and strategy.It will take care of itself.

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Emotions

http://niftynirvana.blogspot.in/2012/10/decision-making.html

Trading is all about Decision Making. Decision making involves analyzing the possible outcome of various available decision options and taking the appropriate action. Decision making in an uncertain and probabilistic situation faces many challenges. Most of them are discipline related and psychological.

http://niftynirvana.blogspot.in/2012/10/discipline.html

If you search the web, there is no shortage of articles on trading psychology. But I feel most of the trading psychology writings revolves around Expected Utility Theory. This theory assumes decision making takes place by calculating the expected utilities of all the possible options and choosing the option with the highest expected utility.

Trading psychologists advise us to be disciplined and advocate controlling and ignoring the emotions. They ignore the role of emotions in decision making and advise us to aim for an idealized rational approach. In my humble opinion this is not at all practical in an uncertain environment like trading. Further the probabilistic nature of the market makes it much more difficult to practice.

http://en.wikipedia.org/wiki/Antonio_Damasio http://en.wikipedia.org/wiki/Somatic_marker_hypothesis

I find Antonio Damasio's Somatic Marker Hypothesis (SMH) much more relevant to trading than the conventional stuff. SMH gives a central role to emotions in decision making. Somatic Markers trigger automatic reactions to situations in human beings. Whenever a decision is to be made each option induces a somatic response which is experienced as a feeling or emotion and these responses will depend on the past experience. These somatic responses will almost always over ride. The more you resist, the more it will dominate.

The theory consists of two ideas.1.Somatic Markers affect decisions and 2. Somatic Markers depends on past experience. If we want to get rid of ~~emotions~~ emotion related issues from our trading decisions we must have enough experience to develop right Somatic Markers to support the ideal action.

I think ultimately our edge will determine our trading success. If we are trading a method with an edge and doing well, slowly we will develop ideal Somatic Markers. Instead of contradicting and over riding the ideal decision, these SM will start producing what we call "Intuition" or "Gut feeling". This will help the decision process in an automatic manner and our discipline and psychological issues will disappear for ever.

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Endowment Effect

"Endowment Effect" is a cognitive bias. It is also known as “Divestiture Aversion” in psychology. Simply, it refers to our tendency to value an item more once we own it. We are always less willing to part with something which we own. Think of how a book on your shelf that you have not used for years seems to increase in value the moment somebody asks for it.

Endowment effect is applicable to ideas and methods equally well. Once we commit a lot of time and effort to learn something, we start to own it and become emotionally attached to it. Even if we find this useless at a later stage, we are reluctant to disown it and discard it. Worse, we spend a lot of time and energy to find justification to hang on.

This cognitive bias is surprisingly strong among traders. During the initial stages of development; they get exposed to many things and spend a lot of time and energy to master these skills. They hold on to these old possessions for ever for no good reason. This will do a lot of harm than good.

Ensure that you are spending your time and energy on something “Actionable” .Your analysis should be focused on something easily “Recognizable”, “Reactionable” and “Repeatable” otherwise you are analyzing to paralyze yourself. Frequently do an audit. Eliminate the non essentials and get rid of the time wasters.

Reduce, focus and simplify.

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Enduring Edge

Anyone can win a few trades randomly. Tipsters can always show you some big winners and conveniently hide their losers. Luck is not an edge in the market. Edge is all about finding trades after trades that are profitable and pulling out money from the Market day after day.

The first step to trading consistency is to find an edge in the Market. If you want to be a successful trader, you need to build an "Enduring edge". An enduring edge is something permanent and will not change over time. In other words, it is structural and is based on some fundamental understanding of how Market works. It is rooted in the behavior of the Market.

http://www.investorhome.com/anomaly.htm

The easier way is to build your trading method around some proven behavior of the Market. There are so many Market Anomalies on which you can work. These are thoroughly researched and statistically proven concepts. All the profitable methods are developed around these proven anomalies. Focus on something that is applicable to your time frame and work on it.

http://niftynirvana.blogspot.in/2012/09/price-flips.html

My trading method is built around Price Flips which is a very basic character of all the Auction Markets. An understanding of price flips will enable an enterprising person to formulate any number of satisfactory trading tactics on this.

Do not make the mistake of ignoring this topic and running behind the new indicator . Take a New Years resolution **NOW** to work on a proven market anomaly and to find an Enduring Edge.

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Execution

I am not an expert in trading. I do make mistakes all the time.

In fact, there are no experts in trading. If somebody claims to be an expert in this field, he is a fraud. There are many people who are much more skilled and experienced than you or me. Skill and experience makes one consistently profitable.

Most of the traders are well aware of many profitable patterns and setups, still they fail to make money. why?

You may be having a trading plan with a proven edge. Still you fail. Why?

Knowing the patterns and having a trading plan is not enough. It is all about execution of your plan. It is a lot harder than most people think. When we see a setup that fits our rules we have to take it. Most of us are discretionary traders, so we have to think about our entries and exits. But when we see them, we have to take them whether the trade works or not.

If you freeze and you are not able to pull the trigger at the right time, you are not going to win in this game.

Execute or be executed. Believe and achieve...or doubt and die

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Fantasies

Close your eyes. Relax
Imagine yourself as a successful trader. You are proudly posing in front of your new private jet. You are enjoying the cruise on board of a luxury liner with your family. Now think about the fleet of expensive cars and gadgets your money can buy. Imagine and dream everything you can do with your wealth. They say that if you can believe it and dream it, then you can make it come true

Nonsense. It will not work .

These are all wishful thinking and fantasies. In reality fantasies can do more harm than good. They do not alert us to the problems we are likely to face along the way. This will lead to poor decisions and create a preference for information about pros rather than cons. We are more likely to get greedy and start trading recklessly to blow accounts after accounts,

There is no harm in thinking positively but indulging in your fantasies too much is dangerous. Thinking about the obstacles, problems and setbacks you are likely to face on the way is much more beneficial

Simply dreaming it, is not the key to make dreams come true.

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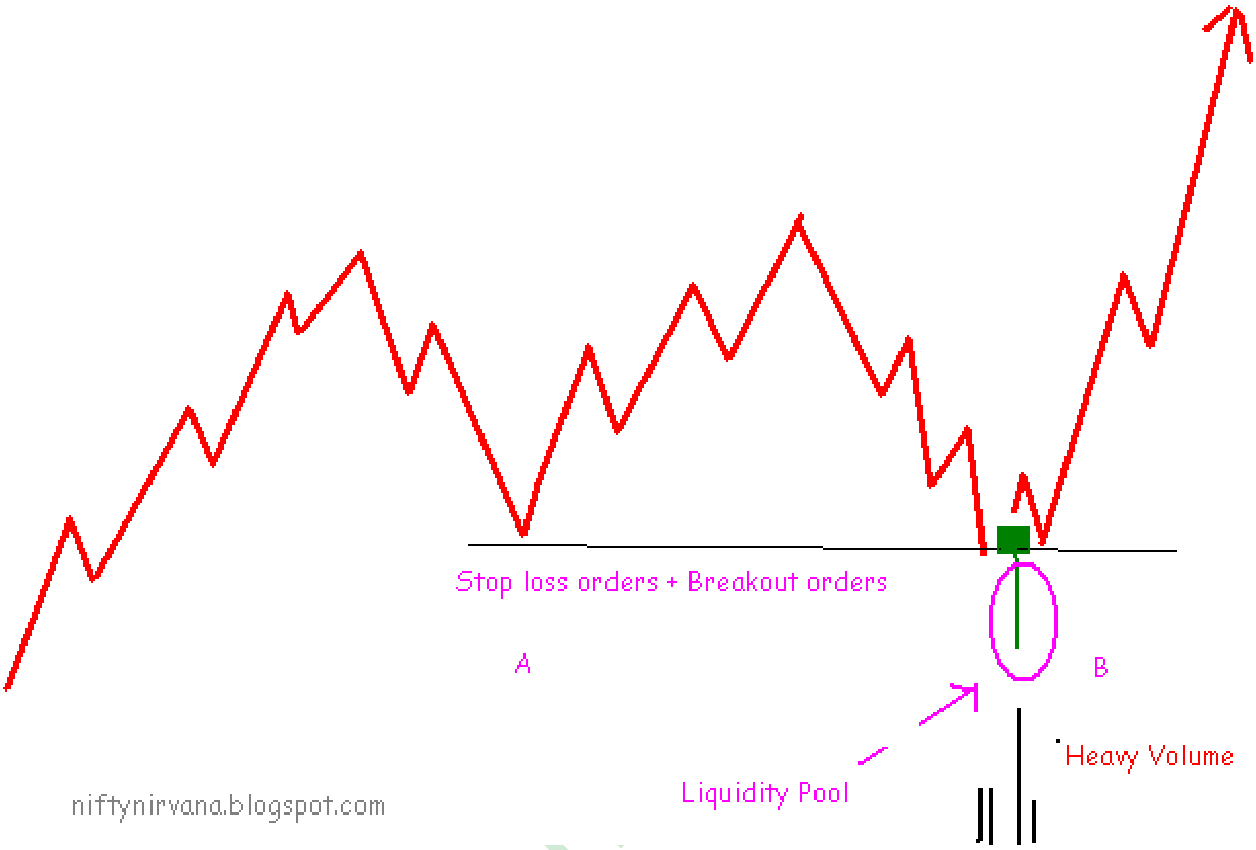
Food For Thought



Look at the above picture. You might have seen this pattern many times.

Market is in a bull trend. It pull backs and makes a low at point A. Afterwards it goes up and later returns to the same price level and print a beautiful pin bar.

As a trader what will be your action in this area?

Some possibilities are
1.You will keep a stop loss order just below point A if you are holding long position
2.You will sell just below point A expecting a breakout to the down side
3.You will go long above the pin bar with a stop loss below the candle

Will you buy at the circled area? Who bought there? Who absorbed both stop loss selling and breakout selling? Why?
Please let me know .

Free System Testing

Many traders think their trading system will lose its edge if they disclosed it. They keep it secret as if it is some nuclear bomb code or cryogenic engine technology. I can understand, if it is some High Frequency Trading algorithm they developed after spending a few million dollars. But almost always it could be a crappy curve fitted Amibroker code based on some indicators every Tom Dick and Harry is well aware of.

Unless we are operating on a millisecond timeframe and attempting to exploit a wafer thin edge with an automated trading system, there is no point in keeping the method secret. That is all beyond the reach of a retail trader. Even billion dollar funds are struggling with it.

I think, there are two reasons for keeping the system a secret. The first one is they want to sell it and make some money. Otherwise the system could be so crappy that they themselves have no confidence to share it and they are not able to defend it on public scrutiny.

It is always better to share your system publicly, I feel. The system need not be profitable. Do it even if you find something potentially profitable. Market is so deep that it will not be affected by few people trading your method.

Sharing it publicly will have some huge benefits. Other traders trying your method will prove its worth fast. You will always get feed backs so that you will have a better idea about the positives and short coming of the method. Then you can focus on its strengths and modify it to eliminate the shortfalls.

Even if your system is crappy, don’t worry. You will understand it is not viable much earlier without you having to waste a lot of precious time on it, so that you can move on to something else.

Share your system. It is as good as hiring a few system testing professionals to evaluate it, and it is free.

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Functional Fixedness

In an experiment a group of people were asked to fasten together two steel rings. They were given a long candle and a match box. All the people failed to do it as the melted wax was not strong enough to bond the rings

Now stop reading and think. Do you have any other idea to do it?   Do not cheat.

The solution is to remember that a candle contains wicks. Wicks are threads which can be used for tying the steel rings together.

There is an old saying that when you have got a hammer in your hand, everything looks like a nail. Further we are reluctant to use some other tools, other than hammer, to nail. People get stuck thinking in habitual ways.

http://en.wikipedia.org/wiki/Functional_fixedness

In psychology, this phenomenon is called "Functional Fixedness" .Functional Fixedness is a cognitive bias that limits a person to using an object only in the way it is traditionally used. This is the number one creativity blocker. If you need creative solutions, you need to escape from the established way of thinking. Most of the time the pieces of the puzzle are just in front of you, but you just can't see it and put them together.

Trading is not different. It is a complex problem that can be very difficult to solve. Break it down to small manageable components and find ways to tackle it. Think different and use your imagination to find alternative tools and new ways to use existing well known tools.

People on board of the "Titanic" could have used the ice berg as their life boat for nearly four hours within which help arrived. Titanic was navigable for awhile and could have pulled aside the iceberg.

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Fundamental Flaws

I started my Stock Market investing in late eighties. I used to submit multiple applications for good primary issues and made good money. Later CCI was abolished and companies started charging premium on their issues.So there was no way to make profit but to go for secondary market investments.Trading was really not an option as there was no internet and electronic trading.

Like any other investor , I used tools like PE ratio,PB ratio, EPS etc for my analysis.I compared the company PE ratio with the Market, Sector, Industry and the historic PE of the same company. Lost a lot of money , energy and time after buying an undervalued stock and waiting for the market to discover the value.

One fine morning , it dawned on me that I must focus on Market price and not on this ratios .So I changed the formula. PE Ratio = Market Price / Earnings per share to MP = EPS * PE Ratio. So the Market price is a multiple of EPS and a variable. This variable is nothing but the market sentiment. Our companies declare their results quarterly and this EPS remained a constant at least for a quarter. Then everything was clear, the focus should be on the sentiment rather than on earnings for the short term player.

People may argue that projected EPS is more important and we may need to research and pick stocks.So far I could not accurately project not even the profit of the bank branch ,where I work,for any quarter even though nothing happens there without my knowledge. Leave alone thousands of companies operating in different sectors , industries and geographical regions.

If you do not have a lot of luck or right connections to get inside information, chances of becoming a successful investor is very remote. Buying lottery tickets can be a better option.

" *Fundamentalism"can be injurious to your financial health.*

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Fuzzy Process

Fuzzy logic is an approach to computing based on many values rather than the usual "true or false”. Traditional binary logic accommodates only true or false values. It can be either zero or one. Fuzzy logic can assume any value between one and zero. It deals with reasoning that is approximate rather than fixed and exact.

There are many things common in both probability and fuzzy logic But these both are not same Probability measure whether an event occur or not but fuzzy logic measure the degree to which an event can occur. Fuzzy logic deals with the reasoning instead of exact decision so it revolves around approximation. We can process incomplete data with it.

Decision making in trading is a Fuzzy process rather than a Binary process. Everything is not in black and white. There will always be shades of gray. That is why coding a discretionary method into a computer program is almost always impossible.

A binary logic process cannot be applied in many real life situations.For example, ten thousand grains make a heap. What if we remove a grain from it? Won’t it be a heap then? Coming to trading, we need space for the trade to move. How much space do we need? Say 12 points. What if it is only 11 points? Skip the trade? We need critical mass to get trapped. How far it should move in one direction to make a critical mass? Say 40 points. What if it has moved only 35 points? Avoid the trade?

In trading, there are too many variables that can affect the outcome of a trade, known and unknown. Trying to make rules for each one of them is not at all possible and is not practical. Then what is the way out? Don’t worry. Our brain excels in it. Fuzzy logic seems closer to the way our brains work. We aggregate data and form a number of partial decisions which we aggregate further into a higher decision.

Then how to train the brain for that? Only solution is deliberate practice paying attention to the relevant variables until the brain gets hard wired. Till then we are going to struggle.

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Goal Setting

Goal setting is an aspect of trading which do not receive proper attention. Goals motivate us to devise a plan and maintain discipline. Goals drive us to take action and are a must if one is to succeed in all walks of life. Absence of well defined goals is drifting aimlessly without a proper destination.

Goals should be realistic and achievable. Otherwise it may lead to frustration and discouragement. Better to start with realistic, achievable goals and raise the bar as you progress.

We need to set performance goals and financial goals. In my opinion performance goals are more important than financial goals. I agree the ultimate aim of every trader is to make money from the market, but focusing on profitability alone will do more harm than good.

If our goal is to make Rs 5000/- a day, trading, it will force us to trade incorrectly. We will lose patience and take mediocre trades anxious to reach the set goals. Once we achieve the daily target, we may hesitate to enter on good setups as we will be afraid to lose already earned profit and miss the daily target. Daily financial goals are counter productive. Do not set daily financial goals; you will be better with weekly or monthly goals.

Focus on performance goals on a day today basis. Our aim should be to stick to the plan and focus on the process. Define the trading process well and set goals to achieve consistency. Let the correct process allow you to achieve your financial targets.

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Habits

A habit actually leads to a goal. For example to lose weight we must develop an exercise habit and a suitable food habit. Behavior modification is possible only through creating positive habits that can lead to your goals. Creating new habits are not easy and requires continuous conscious practice

Think about learning classical dance or gymnastics. We consciously practice some movements repeatedly and deliberately. With continuous deliberate practice we become good at these movements. Once we master the basics, more complex moves are practiced to improve the skill.

This is applicable to our entire lives. We are knowingly or unknowingly practicing and creating good and bad habits all the time. But we are not aware of it. People are practicing to get up late, to smoke, and to eat junk food. Think about it for a while. Are you happy with what you are practicing?

Profitable trading also requires behavior modifications. The most important thing is “Awareness”. Be conscious of what you are practicing. Decide whether this is an action or thought pattern you want to practice to develop the right habits for attaining your goal of trading consistency .

Start to practice the actions you want to be good at and eliminate the rest. We will become good at what we repeatedly do for sure. if you are regularly doing what doesn’t work or not doing what does work, permanent failure will be the result

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HFT Humbug

http://www.amazon.com/Flash-Boys-Wall-Street-Revolt/dp/0393244660

Michael Lewis' new book "Flash Boys" have brought in the High Frequency Traders to the centre stage again. Financial media and forums are abuzz again with hot discussions. General opinion is against the HFTs and many argue markets are rigged against the average retail trader by HFTs

I don't think HFTs are threat to the retail trader. They are operating in an ultra lower time frame that we cannot even imagine. Their activities are just noise for us. Does an hourly chart trader care about the moves in 3M charts? No. Then why should we care about the millisecond time frame?

Further most of the HFTs are operating in niche segments. They are into cross exchange arbitrage and index arbitrage mainly. Algos sniff around and spot thin imbalances and feed on the price differences. In fact HFTs will speed up the price discovery and will make the market more liquid.

Then who is making this hue and cry? Who is shedding crocodile tears in the name of the retailer? It is none other than the old market makers. They were making money on ask bid differences for centuries and now is on the verge of extinction. Even Goldman is trying to sell its market making operation. They are asking for $30 Million for something they bought at $ 6.5 Billion. Anybody interested?

http://dealbook.nytimes.com/2014/04/01/goldman-explores-sale-of-market-making-unit/?_php=true&_type=blogs&_r=0

Watch the video. It shows the cross exchange trades executed in the stock of "Merck" during 10 milliseconds that is 1/100th of a second on May 16, 2013. The animation is slowed down by a factor of 40000.The fastest order feed by a human will take 215 milliseconds. HFTs are here to stay. We can't compete with them and we need not compete with them. So don't worry about them.

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How to Learn Day Trading

If you are ready to take a little effort, you can learn it really fast.
I assume you have some basic knowledge.

First thing you have to do is selecting your time frame. If you cant stand the Formula 1 speed of 1M chart select 3M or 5M.

Now decide how many points of Nifty you need to capture. If it is 10 add another 5 points for commission and slippage. So you may need minimum 15 point move.

Next step is to open your historical chart. Mark all the 15 points or above moves on this chart. Note down or better mark on the chart the following

1. Location from where the move started (HOD, LOD. PDH etc.}
2. Location where the move ended
3. Locations where the move paused
4. Notice and note down the pattern which triggered the move (BOF, TST, BPB etc)
5. Mark where you could have entered with the least risk. With a minimum RR of 1:1
6. Decide on your high probability patterns and high probability locations

Do it at least on 100 charts. The more the better.
Now go live with Mini Nifty. Stick to your locations and patterns. When in doubt stay out. Don't chase. Maintain strict discipline. Slow and steady will win the race.

Don't worry if you cannot invent You can always do Reverse Engineering

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If and Then

http://niftynirvana.blogspot.in/2012/09/decision-points. http://niftynirvana.blogspot.in/2012/09/decision-points.html

My trading revolves around Decision Points and Price Flips. These levels create a framework or structure within which the price moves. There is nothing special about these Decision Points. These levels are good old support and resistance levels where majority of the traders act.

What is there in a name? In fact the name matters a lot psychologically. I have written about it in an earlier article (Read). If we call a particular level “Support”, our mind automatically perceive the level as a buying zone. Here we start looking at the market in absolutes and will find reasons and patterns to go long, where none exists in reality. Further if something happens contrary to our expectations we are taken off guard and we freeze.

http://niftynirvana.blogspot.in/2012/03/mind-your-words.html

Trading is a mental game where we have to be flexible and dynamic all the time.. We must be able to quickly change our views as the Market changes. If we hold a fixed view it is not possible to process new information objectively. Our mind will block or misinterpret the information in support of our belief.

Trading is all about developing scenarios. Instead of seeking certainty, think “If and Then” possibilities. Hold opposing ideas in mind and be ready to change your bias as and when the price action unfolds at the hard right edge of the chart.

Now, do “Decision Points” make sense to you?

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Inefficient Indicators

Do Technical Indicators Work?

When I started trading, like any other beginner, I thought the indicators are the holy grail of trading. I was using a bunch of them in my charts and was paying more attention to these rather than on price and volume. Later, I learned that these indicators are doing more harm than good in my trading, and started paying more attention to price action

All the indicators are derivatives of price and volume data and these derivatives could be effective comparison tools. Where we need to select a trading vehicle from a probable list, some of these tools could be useful. If we are focusing on a single instrument like Nifty Futures these are worthless.

Many Indicators are lagging in nature. There are countless moving averages and these are all arrived at averaging the past values. I don't find any reason to believe these levels to work. Of course some widely followed averages like 50SMA and 200SMA may attract some order flow not because of the magical nature but as a self fulfilling prophecy

Another set of indicators measure the rate of change or acceleration. These are called leading indicators. Traders look for the divergence of such indicators. The basic assumption is trend decelerate before reversal. This assumption is faulty and price move can accelerate further without market reversing. You will be told to get price action confirmation before trading such divergences. Why price action alone is not sufficient?

Some indicators like MACD combines both lagging and leading indicators. These are all secondary derivatives and fail to avoid the basic shortcomings of primary derivatives.

There are another set of indicators which are belief based. This includes Fibs, Gann, floor pivots and many other mystical variations. If you are using them, "Let your Beliefs Save You!"

Now a days Indicator Bashing has become very fashionable. These people claim they are trading pure price action. If you look closely you can see they are trying to trade some candle patterns without any respect for the location.

There are countless methods to trade the Markets profitably. You can save a lot of time and effort by applying a simple test. Look at the defined Market Structure, the framework within which price is supposed to move. Find out whether the Market is respecting these levels repeatedly and these levels are actionable. Throw it out, if it is not.

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Knack of Trading

I am a member of many trading forums and I do frequent these forums . I have interacted with many members on these forums who have read a lot and who are very familiar with the theoretical side of trading.They can also recognize many high probability patterns.But when comes to real trading these people are mediocre.

I have noticed that some of them have the knack of picking profitable trades.They know nothing more than the other forum members.But somehow these traders have a knack for knowing which set up to take and which set up to avoid.

I don't think it is natural intuition. The knack of doing something well is generally acquired through prolonged exposure and practice.Theoretical knowledge and pattern recognition are just a part of the picture. The skill of assimilating price action information and the ability to take decisive action is also required

This skill is developed only through experience, Reading charts and trading.

"*Repetitio est mater studiorium*."
This ancient Latin phrase translates as "Repetition is the mother of all learning."

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Learning to Fish

I was born and brought up in a small coastal village of Kerala. It was before the “Gulf Boom” and fishing was the major occupation of the village folk. I was always fascinated by the sea. I enjoyed sitting idle at the seashore watching the waves washing the shores, listening to the whisper of the sea.

I used to watch the fishermen repairing their nets and preparing for the next sail. I was really surprised about their respect for the Ocean. They referred the sea as “Kadalamma” which means the “Mother Ocean”. I could always hear them thank her for a great catch but never heard cursing when they return empty handed. Before leaving the shore, the boat men always prayed to the mother to protect them and bless them with great catch. The first thing they teach their children is to respect Mother Ocean.

Like the Ocean, Market is inviting and notoriously dangerous. As traders, the first thing we should learn is to respect the markets and surrender to her. If we think we can fight and beat the Market, we are totally wrong. Market is supreme and anything happens there is beyond our control.

Unfortunately, most of us do not practice this “Lesson No 1”.We constantly try to fight the market. We try to go against the market trend. We try to dictate the Market. We expect the market to respect our calculated levels. We are foolish enough to believe that the Market will listen to us and go where we wanted it to go.

There are terra bytes of information available on the internet about trading. Believe me, 99% of these material is all about identifying the right location to initiate a trade. Almost all the studies, let it be MAs, EMAs, Pivots,Fibos,Gann,EW,Trend lines,MP etc, are all used to identify the trade location. Do we really need it? Market itself is always showing us the levels it is going to respect. We do not believe it and arrive at our own levels using complex calculations and expect the market to respect it. Funny

We are not stopping there. We try to dictate the market what it should do at these locations. We label locations as support and resistance. We expect the market to go up from a support and fall from a resistance. Who are we to dictate the market ? Trade locations are nothing but a level at which the market decides its future course of action.

Let us learn to respect the Market and explore the Ocean depths. There are treasure troves waiting to be found.

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Lion Taming

http://en.wikipedia.org/wiki/Clyde_Beatty

Clyde Beatty was a famous animal trainer and a Circus owner. He appeared in many films during 1930s to the 1950s and in many television shows until the 1960s. Beatty used a whip and a chair to command the deadly cats. Once he told in an interview that the whip is not that important at all and in reality the chair did the trick.

You might be wondering how one can control an animal as powerful as a Lion with a four legged chair. It is not because the Lion is afraid of the chair. It is that the beast is confused by the chair. Cats are single minded and the points of the chairs four legs bobbing around confuses them. Simply, the chairs legs distract the beast's attention so that it confuses itself into inactivity.

The animal is biologically programmed to focus on one thing and then attack it. When the tamer holds up a chair the animal loses its thought process and gets distracted as it is confused where to focus. It is basically animal psychology in action. The problem here is a Lion fails to identify a chair as a chair and try to focus on its legs, confusing itself.

As traders, we are also not immune to this psychological phenomenon. Price action trading is purely discretionary and we may need to process a lot of information during the decision making process. We get confused and fail to see the big picture and get distracted by the different individual elements.

Don't be like the Lion. Learn to see a chair as a chair.

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Long Haul

There are many approaches to learning and skill development. A lot of studies have taken place to know what makes an expert an expert. Many of the findings are extensively researched and used in high performance skill development training, especially in sports

Many of the findings are equally applicable in trading. For example Fitts and Posner (1967) suggested that the skill development process is sequential and moves through specific stages. According to the study there are three stages to learning a new skill. It is not possible to bypass any of the stages

Cognitive Stage

- Decision fatigue as it demands high degree of focus
- Lack of synchronization and appear confusing
- Numerous errors, typically gross in nature
- Inability to determine cause of errors or correct them

Associative Stage

- More consistent
- Attentional demand decreases
- Fewer errors and better at detecting cause of error
- Begin to develop appropriate error correction strategies

Autonomous Stage

- Highest level of proficiency
- Attention shift to strategic decision-making
- Consistent
- Confident
- Make few errors and can detect and correct them.

Which stage are you in? Anyway it is going to be a gradual painful progression. There are no short cuts. Be prepared for the long haul.

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Losses

We do not like to lose or fail. That is human nature.We have a tendency to view losses as personal failures.. This is disastrous for a trader. Losses are inevitable part of the trading game We need to accept losses as cost of doing this business.Worlds best traders too lose a lot.

To be successful in trading, we must have a method with an edge. We need to trade the method long enough ignoring the results of individual trades to win.This is not possible without total trust in your methods. If you have confidence in your trading method, losses shouldn't worry you at all. Just take it and move on. Successful trading is not totally avoiding losses but winning more than what you lose.

For every trade we enter, there could be four outcomes. a) Big Loss, b) Small Loss, c) Small Win and d) Big Win. Let us remove the Big Loss from this. Small Wins will take care of Small losses and Big wins will remain with us. Ensure that your trading plan eliminates the possibility of losing big.

"You can't make money if you are not willing to lose. It's like breathing in, but not willing to breathe out"
Ed Seykota

Kindly read the anonymous comment I received and my reply to it.

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Love Virgins

Trading, barring a few option strategies, requires price move. Unless we are able to anticipate the direction of the price move correctly and enter with a prudent stop loss, we will not be able to profit in the long run.

The first and foremost thing in profitable trading is to identify the price levels where we can initiate trades with a very favorable RR ratio. We need to identify “Actionable Levels”. These levels should be “Recognizable”, “Reactionable” and ‘Repeatable”. In fact this is a very simple task. Market itself will show you the levels it respected. I wonder why traders are spending their energy and time to find some calculated levels or some belief based levels when “Market Created” levels are right in front of them.

Rest is just finding tactics to trade these levels and gain the experience to read price action at these levels. The first part is relatively easy but the second part requires a lot of screen time and deliberate practice. This is applicable to all the trading methods and is not dependent on your identified price level or your method of identification.

All these levels are Make or Break levels. There are no permanent supports or resistances in Markets. Always, Market will be creating new levels and discarding the old levels. Better to give importance to the fresh levels. Tested and broken levels lose its importance and may not attract order flow as expected

Leave alone the used and abused levels. Trade the virgin levels.

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Market Sense

Many traders relate trading to “Poker”. I have read it a thousand times since I started my market adventure. Still I do not know what this Poker is all about.

I always felt, trading is like driving a car. Everybody start learning it the same way. We learn rules and regulations familiarize with the controls and deliberately practice operating them. But knowing all these won’t make you a driver. To drive the car with confidence, you need something else. What it is?

It is called “Road Sense”. It is something that we acquire by experience. Level of road sense differentiates an excellent driver from an average one. I do not know how to define road sense. It is simply our ability to assess ourselves and others around leading to good judgments and driving habits.

Good judgment of the situation will help us to avoid trouble and accidents on the road. This involves understanding the behavior of other drivers, assessing our own strength and weaknesses, controlling situations and avoiding risks.

Trading is not different. Knowing all the patterns and trading tactics is not going to work unless you develop “Market Sense”. But it takes time and experience to develop. Unfortunately most of the people won’t stay that long. They will simply quit or flirt to some other method.

If you are really serious about your trading, select a method with a positive expectancy and stay long enough to develop this Market Sense. Your first priority should be the survival during this learning curve.

Anyway, start learning Poker and Golf. Traders are supposed to play these.!!!!!!!!

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Mind Your Words

Words have incredible powers.They create impressions and mental images. Simple normal words like "Loss" can create psychological problems.They influence how we think and these thoughts determine our actions.

Now .Relax and close your eyes.Just think about"Loss".What do you see ?

A theft ? an accident ? a flood ? something burning down? or a pauper begging on the street?. I am sure You will see many unpleasant images.These feelings can kill your enthusiasm,impact your self esteem,lower your expectations and hold you back.No wonder traders find it hard to take losses.

Let us call "loss" something else, say "Expense".Now it feels better. Something business like.Trading is a business where our "wins" are our income and our losses are our expenses.

Treat trading losses just like any other expenses like brokerage,telephone bill,data feed charges and internet charges. As in any other business try to increase income and reduce expenses to become more profitable.Once we realize this we are much likely to be better, profitable traders.

So, mind your words.

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Mission Statement

My mission as a consistently profitable trader is to wait patiently till the price hit a Decision Point, to execute the trade without hesitation on price action confirmation being well aware of the trouble areas, to cut the losses short and allow my winners to run, to focus on the process rather than on money, and to accept the end result without emotions.

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Number Puzzles

Do You like Number Puzzles ?

I do. Have you seen the Fido puzzle ? Nice one.I spent a lot of time to find out the "Rules" that made this thing work.But could not find out. Play it HERE.and come back. Just click on the guy in the lower right corner to continue through each step. http://www.digicc.com/fido/

How is it ? Amazing . Isn't it ?. If you know how it works, please let me know.Number guessing puzzles are fun and they amaze you and help you learn arithmetic.

But do you really need such complicated calculations to find out the number you rounded off or imagined ?. It is obvious and right in front of you.in the piece of paper. You need not spend a lot of time and effort to develop a software for this task. But some people do.

These people are called Traders. These guys think they are wise, learned and intelligent.They do a lot of brain storming, research and back testing to find out the numbers where they can initiate their trades. In fact these price levels are very clear and obvious right in front of them on their charts.

We,traders,spent most of our time and energy to devise tools to identify the price levels where we can enter high probability trades.I wonder why we are doing it. Market itself is showing us the levels it respect.We do not believe the market. We do some silly calculations on it and find our own levels and expect the market to respect it.. Funny isn't it ?

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Observe the Obvious

If you are a regular reader of this blog , you might have noticed the market respects the Decision Points repeatedly. Almost always the price stalls at a decision point and decide about its new direction. Most of the time these levels are very accurate and they work like charm.

What is so special about these levels ? In fact there is nothing magical . It is all simple common sense.Let me explain.

A lot of traders use moving averages to trade the markets. They identify locations to initiate their trades in many ways. Some people enter on price crossover and some others on average crossovers. These traders use different moving averages to make decisions . This varies from 3 period to 200 period. Further,some of them use simple averages and others stick to exponential moving averages. In short these traders are identifying different locations to enter and exit their trades.

Story is not yet over. Traders are using these method on different time frames. Day traders normally use 1,2,3,5,10,15 minute charts. Try to mark all these levels on a chart. It will cover the entire chart space.

Now think about other methods like trend lines, Fibos, EW , and many other indicators. These people use different settings on different time frames. All these traders are divided and identify and trade different levels. In short there is no unity only diversity.

Now coming back to the Decision Points.These levels are fixed and visible to all the traders. There is no confusion or ambiguity about the levels. Previous day high is the previous day high for all. A BRN is a BRN for all. So all the traders monitoring these levels are going to act at the same level. Decision Point traders are united and they rule the divided rest.

Decision points are not my invention. Traders were using the levels for long. I just gave them a name. That is all. Decision Point traders are a few in numbers, I agree. But they are able to move the market because they trade big. They trade big because they are profitable.Most of the time they win because others are divided.

Do not trade what "you" see on the chart, trade what "all " see on the chart.

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Oceans of Fantasy

Markets often reminds me of the Ocean. From the seashore to the deepest depths,oceans are home to some of the most diverse life on Earth. From the warm sunlit waters of the surface to the pitch-black bottom layer of the ocean,where the water is almost freezing and the pressure is immense, life exists.

These organisms have adapted to the difficult environmental conditions like no light, low oxygen, scarce food, crushing pressure etc. Many creatures in the deep oceans are bioluminescent and produce their own light.Many have huge mouths or enormous guts to gobble up as much food as they can when it is available.

Different zones of the Ocean need different set of skills for survival.Just staying afloat in the respective zone itself is a a major concern for these animals. Some fish have gas-filled swim bladders, while jellyfish and other creatures absorb huge amounts of water in their tissue.

Like the Ocean, Market is inviting and notoriously dangerous.You can see the biodiversity in stock markets also. There are multi billion funds and small investors,Bulls and bears,Scalpers,day traders,swing traders, position traders,brokers, analysts and buy and hold investors.These creatures differ in their skill, knowledge and style. They operate in different time frames and the market feeds them all.

It is extremely important to stick and adapt to the respective zones for survival. Select and stick to a trading style that suits your personality.

"Jack of all Trades" will not survive as a trader for long.

This really is a great song: Oceans of Fantasy -BoneyM

http://www.youtube.com/watch?v=dUp1khBKxSc

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OODA Loops

http://en.wikipedia.org/wiki/John_Boyd_%28military_strategist%29

Col.John Boyd of US Air Force was one of the most gifted and effective fighter pilot of all time. John Boyd understood the challenges of time pressured decision making and developed a decision making framework for combat situations. It is known as OODA Loop. The acronym OODA stands for Observe, Orient, Decide and Act.

http://en.wikipedia.org/wiki/OODA_loop

The application of OODA is not restricted to warfare alone. It is applicable to Trading as well. Aim of OODA is to act fast. The right way is to decide and act fast so that more time can spend to observe and orient.

Observe. First step is to observe what is happening at the moment. Gathering relevant information happens during this stage. Almost always, under time pressure, traders forget to pay attention to the details. Better to simplify and avoid observing irrelevant information.

Orient. Once we gather the relevant information, the next step is to process it and position ourselves for a decision. Orientation will depend upon our beliefs and mental model. Observation and orientation will decide our trading edge. We have to ensure that our methods are based on the reality and not on illusions.

Decide. The next step is to decide a course of action. Depending on the gathered information make a decision to act.

Act. This is the final stage. Implement the decision. Once a decision is taken do not second guess or hesitate. Simply take action. Go back to step one and observe. Cycle through the OODA Loop.

Finally,do not hesitate to use the ejection lever if something goes wrong. Ensure survival. We need to trade another day.

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Order Flow Trading

Many traders think Order flow trading is all about watching the order book and making decisions. System peddlers and snake oil vendors are responsible for this misconception. I don’t think it is possible to trade the markets looking at the flickering DOM of our trading terminal. Algo trading super computers can feed, modify and cancel orders in milliseconds and many of these actions are for deceiving retailers and other Algos.

Looking at the order book of any kind is not the way to proceed. Traders are creating order flow by feeding the orders. Conventional technical analysis does not address this aspect. Deconstructing the logic processes of other participants is the way to go.We must learn to operate inside other traders OODA Loop.Real trading is metagaming. It is engaging the other players.

http://en.wikipedia.org/wiki/Metagaming

For me Order flow analysis is a mindset. It is anticipating future orders and making decisions on it. I don’t think we need to see the actual orders on our DOM to do this. It is all about projecting the future price move based on other trader’s behavior.

Market is a place where count less traders executes countless strategies at the same time and it is very difficult to anticipate their future actions It is very important to know who is in control of the market at the moment. Day traders, swing traders and investors react differently to a situation. For example you might have noticed that when higher time frame players dominate, Decision Points will not work as expected. Our method work well when the day trading brigade controls

Real order flow trading involves anticipating where large enough traders are going to enter and exit en masse and acting there without hesitation allowing their orders to move our position to profit. Always think order flow. We need to enter where there is enough order flow to support our direction and exit where there is opposing order flow.

Patterns and setups are not that important. Trading is all about people, their decisions and orders.

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Own Your System

There is only one trading system that can make us consistent profit. That is “Our Own System.” People get caught up in trading a particular method that makes money for somebody else. There are so many methods in public domain that can be traded profitably. But this may not be suitable for our personality.

First of all we need a method with an edge. In other words the method should have a positive expectancy. Then we must have the ability or confidence to trade the method through good and bad times. The real problem with trading is that without a taste of success we are not going to have this trust and confidence to implement the method consistently.

Unfortunately, trading is a skill that cannot be taught. We can only be guided. It is just like learning to ride a bicycle. How can one be taught to balance on a bicycle? No way. We have to teach ourselves to do that persisting despite failing and falling down again and again.

This blog “Nifty Nirvana” is an effort to show a path which I believe will lead to trading mastery. Naturally, I can share what I have seen and what I have experienced .I know there will be much better and much easier paths leading to the same destination which I am not aware of.

Select a structure and framework that you believe you can trade profitably, tweak it to your own comfort level, trust it and trade it with absolute faith. I am sure the Decision Point method is a very practical and actionable template on which you can build on.

Customize, and make it your own.

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Perfection !

Are you a perfectionist ?

If yes , Trading is not for you.

Perfectionism is one of the cardinal sins of trading and can be fatal.A Perfectionist cant accept the probabilistic nature of market and he will be always searching for the "Holy Grail" of trading which does not exist.

He will flirt from system to system,Indicator to indicator in search of perfection.Eventually this will demoralize the trader and will take away the fun of being in the market.

As traders we must strive for the excellence in trading and not for perfection.

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Practicing to Fail !

http://en.wikipedia.org/wiki/Michael_Jordan

Last week, I was reading about Michael Jordan, the legendary Basket Ball player. His life is very inspiring. . I was very surprised to note how he practiced the game. Despite being number one in the game, his game practice was very basic and simple, like free throws and just dribbling.

Getting the basics right is very important whether it is Basket Ball or Trading. We need a solid foundation to build on. Otherwise the whole structure may collapse. If you get away from the basics, the bottoms will fall out for sure

Unfortunately, many traders do not understand the fact that they are practicing useless skills. They work hard and practice well. Still trading consistency remains elusive for them. They think their problem is psychological or discipline related. Wrong.

http://www.niftynirvana.blogspot.in/2012/06/reality-of-market.html

The real problem is that they do not understand the “Reality of the Market”. They have no idea how a dual auction market functions and what move prices. Any methods that ignore these realities are destined to fail. The more they practice, the more they will fail and they will become experts in trading the wrong way

Message from Michael Jordan is very clear and relevant even in the field of Trading. Jordan warns that when you “get away from fundamentals… the bottom can fall out of your game, your schoolwork, your job… whatever you’re doing.”

"You can practice shooting eight hours a day, but if your technique is wrong, then all you become is very good at shooting the wrong way. Get the fundamentals down and the level of everything you do will rise.” Michael Jordar

Are you practicing to fail ?

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Probability

“Trading is a probability game”. You might have read it a thousand times. I think many of the traders have not understood this or have misunderstood this. There is much difference between betting on the probabilities of a method with an edge and using statistical probability to find an edge.

To trade the Markets profitably, we need a method with an edge. Edge is nothing but a positive expectancy. As we all know well, there are no certainties in the Market. Anything can happen at any time. We must trade the method long enough, ignoring the individual trade results, to make this positive expectancy to work in our favor.

Working on statistical probabilities to find an edge in the market is altogether a different ball game. It is not easy as we think. For example, after an elaborate study, we find that 70% of the gap ups fill on the same day and we conclude shorting the gap ups at the open could be a profitable strategy. Sure it is not going to work.

There are many logical fallacies that could distort the studies. Many statistical tests calculate correlation between variables and in many cases correlations does not imply causation. It will be totally wrong to conclude two events that occur together are taken to have a cause-and-effect relationship. To cite an example all the momentum moves in the market will be preceded by an MA cross over. But acting on all the MA crosses is not going to make you money

Spurious relationships are much more dangerous. Some times two events or variables have no direct causal connection, yet it may be wrongly inferred that they do. This could be due to mere coincidence or there could be an unseen factor.

Market is a place where countless people executing countless strategies at any point of time. Each and every trader is a variable who can change the direction of the Market, at least theoretically. Every moment in the Market is unique and probabilities themselves shift from moment to moment.

In my humble opinion, statistical probability studies alone are not enough to find an enduring edge in Markets.

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Quit and Win

Recently I happened to read an advice given by a veteran trader to his deciples. The essence was, if we select and follow a study with discipline and patience Market will eventually reward our loyalty.

Yes, I agree. There is some truth in it. Many traders waste a lot of time and energy searching for the Holy Grail. They flirt from system to systems and methods to methods. It makes sense to stick to a method and become an expert trading it. Winners never quit. Wise men stick to their methods and get rewarded. It is conventional wisdom.

But there is a problem, Most of the traders are not lucky enough to find a profitable method from day one of their trading career. Many traders end up selecting a method without a true edge or something not suitable for their personality and stick with it for years without any progress.

Finding a method with an enduring edge is a trial and error process. We traders must be good at quitting. We must quickly abandon .and quit a method which is not providing a true edge. Simply sticking to some method will not make you profitable. Ensure there is an enduring edge.

Edge is simply the ability of your study or method to repeatedly identify actionable price levels from where you can expect a very high probability non random directional price move. Test your chosen study and ensure there is an edge in it. Throw it out if not. Believe me,. Most of the conventional studies have no edge. Majority of the traders adopt these studies and you know very well what happen to them.

Cult Leaders may reward your loyalty. Markets will never

http://niftynirvana.blogspot.in/2012/11/trading-cults.html

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Reality of the Market

Majority of the traders fail because they do not understand the reality of the market.Most of us are not even playing the right game.Materials available over the net and the books written by failed traders teach technical analysis patterns and indicator based signals and we assume this is the reality.

The indicator based TA signals and price patterns are illusions. These are only effects. Cause is something else. Then what is the cause ? Price .Indicators and patterns are derivatives of price. Then price is the cause and TA patterns the effect.So we need to focus on price.

Do not reach a conclusion so fast. Price is another effect and there is something that makes prices move in markets. What it is ? It is the order flow. Orders make the market move. If the net order flow is on the buy side market will go up . If net order flow is on the sell side market will drift down.

Then order flow is the real thing that moves the market. Oh No . Dig a little more deeper. Yeah. got it . It is the people who act in the market by feeding their orders.When people start bidding higher,price will move up when they start lowering their offers price will start moving down.

A little more deeper. When people are going to bid or offer aggressively ?. It is when they feel the urgency and desperation to transact. This is when they become emotional.. So it all comes down to the emotion of the market participants.Fear and greed are the most powerful emotions that can force people to act.

If you are able to identify the price levels where a large enough group of traders succumb to these emotions and able to act there without hesitation , you will win in this game. Trading is nothing but engaging the other party. Encashing their fear and greed.

Suppose you are in a shopping mall. People will be moving around in a random manner. Then you hear an announcement that the first ten purchasers of a particular item will get another free. You can see so many people rushing to that counter .That is greed in action. Then you go and press the fire alarm button.Everybody except you will rush to the exit. Fear in action.
Now you know it. Fear is much more powerful emotion than greed.

Trading is war, whether you like it or not.We need blood on the trading floor

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Re-read and Rediscover

Last week I received an email from a reader. He wrote me that earlier he was reading the blog regularly and used to comment. He tried to trade the method for a while and failed to make profit. Then he lost interest and left.

He wrote me that after a year he is rediscovering the blog. Now he has started viewing trading from a different angle and finally price moves have started making sense to him.

This always happen. At a later stage, we may find new uses for something we discarded as useless earlier. Something we have read earlier and thought crap will suddenly start making sense. Something that can change our trading dramatically could be just in front of us. But we fail to recognize it.

I used to download and read a lot of E Books on trading. Recently while cleaning up my hard drive, I came across a book titled “Phantom of the Pits”. It was the worst book I have ever read on the subject. It is very difficult to read beyond one or two chapters as it is so boring. I never had patience to read it completely. Before deleting the file, luckily, I scrolled down. Believe me.I struck gold.

Phantom’s Rule 1 and Rule 2 in 5th and 6th chapters make the book worth its weight in gold. Probably you might have read it. If not Download, read and let me know your feedback.

http://www.earnforex.com/forex-e-books/forex-market/phantom_of_the_pits.pdf

Reread and Rediscover.

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Resilience

Resilience is generally used to describe the ability of a material to absorb energy when it is deformed elastically without creating a permanent distortion. In psychology, resilience is an individual's ability to cope with stress and adversity. It is the ability to "bounce back" to a previous state of normal functioning after a failure or setback.

It is quite natural that every individual will do poorly during many major life transitions. We will always find it difficult to adapt to the changing situations. There will be adjustment difficulties during situations such as switching a job, getting married, becoming a parent, retiring from service, shifting to a new place etc. While facing negative life conditions the impact will be more and this can create major problems.

This has huge relevance to trading. All the successful traders have gone through difficult times. They have tasted defeat. Many have undergone very significant losses during their learning period. However, they stayed in the game longer, through sufficient capital and prudent risk management and eventually enjoyed their success as consistently profitable traders.

Resilience is often mistakenly identified as an individual trait. In reality it is the sum total of many individual traits and skills. Several factors are found to modify the negative effects of adverse life situations and help to build resilience. Here are some suggestions to build resilience

- Build relationships with family, friends and other traders
- Accept everything that you have no control
- Ensure your goals are realistic
- Learn to take decisive action
- Keep a long term perspective.
- Maintain a positive outlook

Prerequisite of a high level of success in trading is a high level of resilience with respect to loss and defeat. A successful trader is one who turns losses into gains by generating learning experiences for continuous self-improvement.

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Rope Trick

I did my primary schooling in a small coastal village of Kerala.Those days there were no school buses and we used to walk. There was a small water way on our way to cross.It was real fun commuting to school with friends.A fallen coconut tree was lying by the side of this water way and we always played on it. We used to balance and walk on this tree trunk.

During an "Onam" vacation some elders shifted and placed this tree trunk across the water way so that they can cross it avoiding a little walk downstream.Many of us kids found it difficult to cross the stream walking on this tree trunk.We were afraid . Later we tied a rope to hold on while crossing and then we could do it without much scare.

The task was very simple and remained the same.We had done it a thousand times before. but now the focus shifted to the danger of falling down.Focus on the danger made us anxious and fearful.When there was a rope to hold ,we felt a little relaxed and was not much afraid to do it.

Trading is also very simple. The problem is, our emotions play spoil sport.Fear is the most powerful emotion and while trading we are either afraid to lose money or fear reduction in our profit.We can overcome this problem to some extent by holding the rope which is known as " Stop Loss".

But We have to make sure that our trading method, the lumber on which we are walking, is strong and robust. If we are not sure about it and do not have total trust on it, even the rope is not going to make us comfortable.

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Rubik's Cube and Trading

Rubik's cube,the mechanical puzzle invented by Erno Rubik, was the international rage during early eighties. Over 100 million Rubik's Cubes were sold in the period from 1980 to 1982.

I was a student that time . I spent a lot of time on this. But the only way I could solve it was by removing the coloured stickers and refixing it to restore the original appearance. In our town only two guys could do this and they kept their methods secret.

The "Aha!" moment came when I met a senior scientist from ISRO on a train journey.He told me that Solutions follow a series of steps and include a set of algorithms for solving each step.Basic solutions require learning as few as four or five algorithms.He taught me a method with which I could solve it .

The method he taught me was not very efficient. It needed around 200 twists and took more than five minutes to solve. But it was more than enough to beat my home town wizards.I was really surprised to see these guys who turned a blind eye towards me earlier, approached me to discuss the methods.

Trading is not different. Most of the thinking is done before hand.The Logic is converted to a method or system involving different steps and these logical steps are executed as per the situation. Earlier,I wondered how these experienced traders are able to take split second decisions while trading. Now I know they are just reacting to the situation by just executing a well thought out,well defined,logical step

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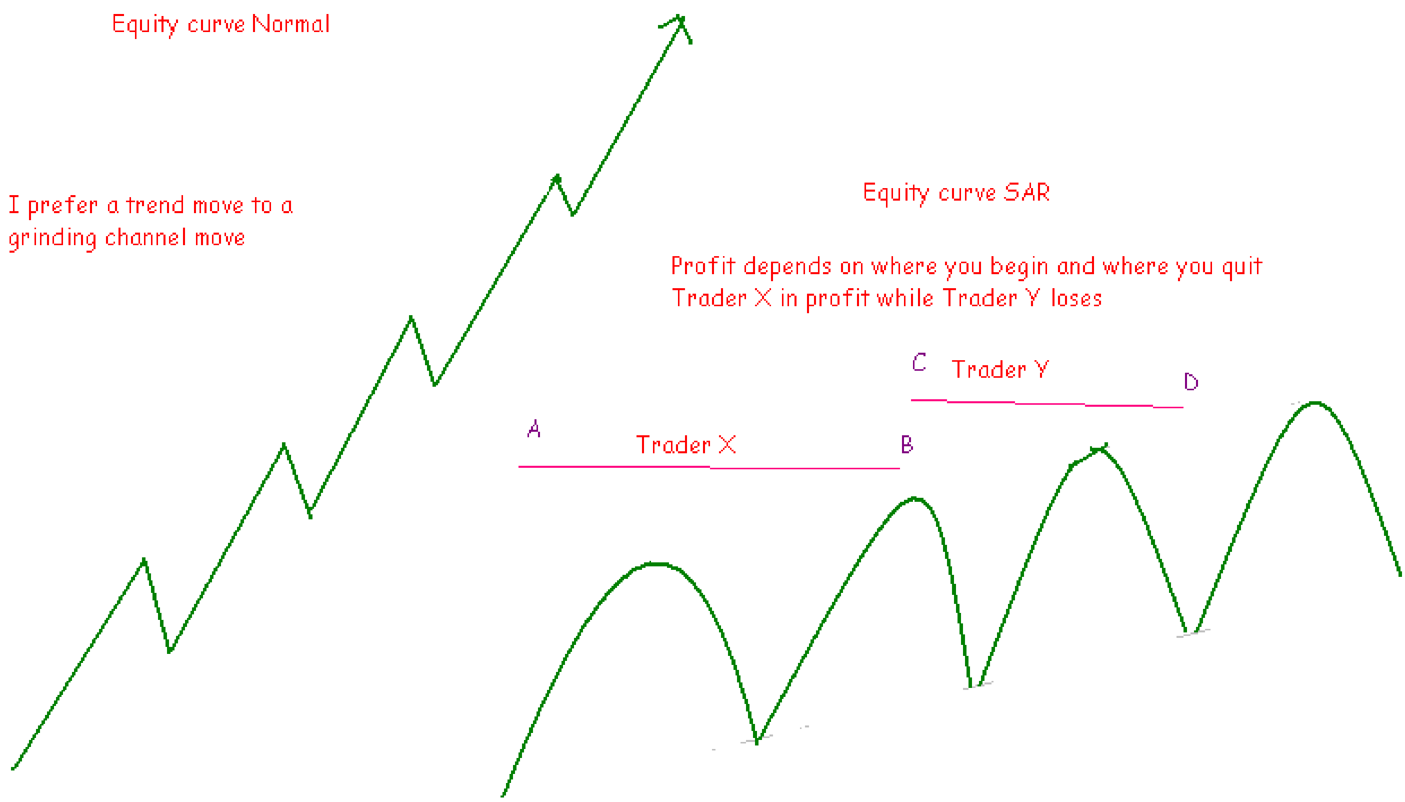
The SAR Circus



SAR (Stop and Reverse) is a market neutral trading system that is always in the market. It automatically gets you long when market is going up and short when the market is going down. Stops are reversal points. People follow different methods to calculate SAR levels. It can be moving averages, Bollinger bands. Pivot points, some market profile levels etc.

I have very keenly observed the development of some SAR systems. Very simple mechanical systems later became very complicated and discretionary. More and more tweaks and rules were applied on it. Tweaks involve multiple lot entries, partial exits, re entries and filters.

I just could not understand the use of filters. SAR is just a number that helps you to stay on the right side of the price move and not a barrier to price move. Further, multiple lot entries and partial exits will do more harm than good. The basic concept of the system is to sit tight through the whipsaws and capture a big trend move. Here you will end up getting whipsawed in multiple lots and cant capture the full benefit of the coming trend move due to partial exits.

Markets are cyclical in nature and alternate between trends and ranges. Expect a lot of whipsaws during the ranging period and never forget Market ranges 70% of the time. We may need to take all the signals as we will never know which one is going to be a home run. During the trend moves you will be able to recoup your earlier losses for sure. But once the market start to consolidate and range again you will give back everything and will be back to square one.

Another problem occurs when you want to scale up your trading. After gaining some decent profit you become confident and double your stake. Immediately market decides to range and wipe out the entire profit earned during the past in no time. Long term profitability of a SAR system cannot be judged with two or three years of data and back testing as the market cycles may vary. Profitability will depend on where you start and where you quit. Hard core SAR specialists can always paint a rosy picture like the wayside fruit seller, who always hides the rotten apples behind the fresh ones. Do not question them. They always keep their “Discipline” cane handy

In my humble opinion, Market will not give you any static edge. Why should Hedge funds spend millions of dollars hiring specialists for research? Why mutual funds are struggling to produce alpha? It is a shame that Goldman Sachs and Credit Suisse professionals are not aware of this wonder method.

I will not advise you to stay away from SAR methods as I have not traded this method live and have no right to say so. I am not responsible if you miss a fortune by not trading the method. I will suggest you to try a plain vanilla SAR method for a very long time. Be prepared for a life long Roller Coaster ride.

I am approaching fifty and I have neither the time nor the patience for this endless Snake and Ladder game.

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Scratch and Win

"Cut your losses and let your profits run"

You might have read this good old market wisdom a thousand times. In reality it is easier said than done, especially in day trading. In day trading arena trying to trend trade is a recipe for disaster.

Most of the time markets make narrow intraday moves in both directions. Intraday trends will not sustain for long. If we patiently "let the profits run", we are going to get stopped out regularly. Most of our initial gains will turn into losses.

The usual practice among most of the traders is that they decide on a target and a hard stop. Once a trade is entered they wait till one or the other is hit. In my opinion this method is not going to work. We may require a more active trade management to win.

http://niftynirvana.blogspot.in/2012/03/first-trouble-area.html

Let your profits run only during strong established trends where you can trail your stops behind the flip zones. When the market is not in a strong established trend, take small quick profits. Every trade should start as scalp to the FTA (First Trouble Area). Once you feel the initial edge is gone, that is when the market fails to break the FTA, exit immediately without hesitation. Never wait for the market to hit your hard stop.

Do not wait till the market proves that you are wrong. Get out if the market is not proving that you are right. This requires a different approach. You may need to scratch a lot of trades.

Trade for extremely consistent gains with "Tiny" losses rather than for occasional "Home Runs" with a lot of "Small" losses

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Self Evident Truths

Self evident truths are propositions that don't need proof. It is a basic assumption upon which further ideas are built. Something so basic that it should not need defining or explaining. In trading also there are some self evident truths that nobody dares to question.

Once the great Aristotle said women have less teeth than men.No body questioned the validity for a long time because for them theory-not experience-was the source of truth,

Most of the traders do multiple time frame analysis .Some of them run multiple charts on different monitors and their trading desks reminds me of the Space Shuttle control room of NASA.

So far I have not felt the necessity of looking at charts other than my trading time frame. Actually smaller time frames show much more detail. Everything evident on a higher time frame is visible on a lower time frame much more prominently and much early.

In fact, I would have gone down to much lower time frames, but the problem is my mediocre brain cant process so fast.

I may need some RAM upgrade

My opinion is purely a day trader's perspective. Swing and Position trading are different ball games

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Self Feeding Loops

While I was in primary School , one day our science teacher showed us an experiment.When a burning candle was covered with a glass tumbler, the candle burned for a short while and the flame died out.She explained to us that it was because of non availability of Oxygen.

Then I was wondering how the gun powder packed tightly inside the Diwali cracker is getting Oxygen to burn. I was afraid to ask her. Later, I could learn that Gun powder releases Oxygen while burning and this is used to continue the chemical process.It is a self feeding mechanism.

Markets, especially the Futures,move in self feeding loops.Order flow is the Oxygen that provides energy for the Market to move. When order flow dries up,Market will cease to exist.Like any other living organism, the first priority of the Market is to ensure its own survival.

The beauty of the Futures Market is that nobody can close an existing position without taking an opposite action against their own position.So every fresh order creates a future opposite order.Sooner or later Market is going to trap those who trade the current move.Market will force them to create order flow in the opposite direction.

Your success as a trader will depend upon your ability to accurately anticipate where the Market is going to do this, and to take decisive action without hesitation.

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Situational Awareness

http://niftynirvana.blogspot.in/2012/10/decision-making.html

Trading is all about Decision Making As traders we are continuously making decisions. No doubt profitable trading requires good decision making skill. Good decision making in trading requires right perception of market environment, ability to analyze the complex signals in real time and projecting the future probabilities of price action.. This requires Situational Awareness.(SA). SA is the foundation of successful decision making.

Situational Awareness is a military terminology. But it is very well applicable where complex decision making skills are required. SA training is given to the personnel where complete, accurate SA is essential such as aircraft pilots, fire fighters rescue forces and security staff.

Situational awareness is the perception of environmental elements with respect to time and/or space, the comprehension of their meaning, and the projection of their status after some variable has changed, such as time, or some other variable, such as a predetermined event. The most common theoretical framework of SA is provided by Dr. Mica Endsley Endsley's model illustrates three stages or steps of SA formation: perception, comprehension, and projection. (Read More) http://en.wikipedia.org/wiki/Situation_awareness

People typically operate on five distinct levels of SA namely "tuned out," "relaxed awareness," "focused awareness," "high alert" and "comatose. The basic level of situational awareness that should be practiced most of the time is relaxed awareness, a state of mind that can be maintained indefinitely without all the stress and fatigue associated with focused awareness or high alert (Read More)

http://www.stratfor.com/weekly/practical-guide-situational-awareness

Situational Awareness in trading is about changing your strategies based on change in situation. Next step is to think of situations before they develop and anticipate markets next move. As traders we must learn to operate in a complex market environment by making appropriate decisions and taking effective action.

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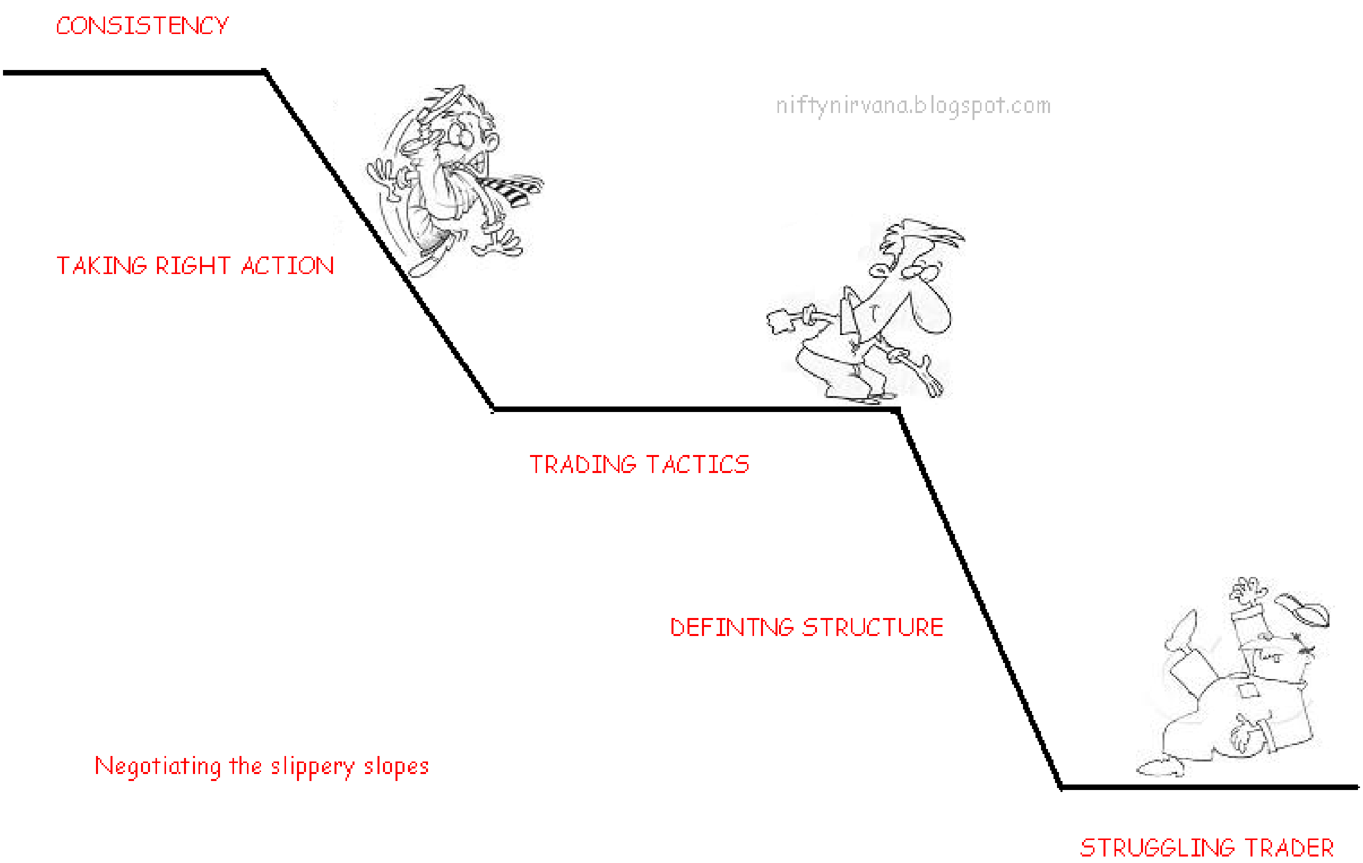
Slippery Slopes



You might have read a lot about the process of Trader Development. There are tons of materials available all over the internet. As always, I have a very simple approach to this subject also.In my humble opinion there are only three stages in trader development. You need to negotiate two slippery slopes and a plateau. These stages are Structure, Tactics and Action.

Structure
First stage is defining the structure of the market. This is a slippery slope and most of the traders fail to climb this. Structure is simply a frame work within which the market moves. Imagine a foot ball field. There are certain rules under which the game is played. If you are not aware of these rules, you will think that the moves are random. Markets do not have such hard and fast rules, yet you need to define a framework to trade it.
Nobody knows the exact structure of the market. Indicators, Market Profile, MAs, Elliot waves, Gann etc etc are all attempts to define the structure of the market. We need to define this structure and identify the *"Actionable"* price levels where we can initiate trades.Observe and ensure price is respecting these levels repeatedly and these levels are “Actionable”.*There is no point in proceeding any further without total trust in your defined structure.*
I Consider Market to move between levels which I call Decision Points. Observing a lot of charts, I am convinced that Market respects these levels repeatedly and these levels are “Actionable”.

Tactics
The second stage is deciding upon the methods to trade the price moves within the defined structure. This is all about tactics. This is relatively easy part and can be achieved with a little bit of trial and error. Interestingly many traders think this is the most important stage and try to trade without properly defining the Market Structure. I have seen people trading candle patterns paying no attention to the location. I trade patterns like TST, BOF, BPB and FTC at Decision points.

Action

The next stage is Decisive Action. This is going to be another slippery slope. Having defined the structure and identified the tactics to trade, we need massive action. We need to acquire the ability to take the right action at the right time. It is going to take some time and we need to preserve our capital and survive the learning curve. Visualization can be very helpful during this stage. We may need to address many issues related to poor money management, trade management and psychological issues such as impatience, fear and greed.

There will be set backs. Instead of identifying the cause and rectifying it, many traders come back to stage two and start dealing with patterns again or worse start defining their structure again putting themselves all the way back to stage one. Trading Consistency will remain elusive for them.

http://niftynirvana.blogspot.in/2012/08/visualisation.html

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Small Stuff

Lack of attention to details can cause big problems. This is applicable in every walk of life. A slightest mistake or loss of focus of a Surgeon can result in a tragic situation. A loose bolt or a misplaced pin may cause a plain crash. In such professions each step of the entire process is given complete and careful attention

As a Trader are you paying attention to the details? Successful traders understand the importance of details. Entire trading environment is simply an accumulation of small details. Lack of attention will lead to under performance, wasted opportunities and inconsistencies.

Habit of paying attention to details does not come naturally. We need to train ourselves. Careful observation is required to absorb and digest everything. We must discard all the unwanted variables and focus only on actionable stuff. http://niftynirvana.blogspot.in/2012/09/actionable-analysis.html

Concentration is the key to details. Do not multi task. Forum postings and bloging can wait. Better to avoid chat rooms during market hours.

Creating a check list will help a lot. Write down important things. Do not rely on your memory, at least during initial period. Organize and plan everything in advance.

Consistent attention to these small details produces trading excellence. That is why we must all sweat the small stuff.

ATD (Attention to Details) is the key to ATD (Achieve the Dream)

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Swiss Haircut

Last week, we were celebrating Onam in Kerala.We had a nice time with friends and family. Many “Mallus” living outside the state prefer to have their vacation in Kerala during Onam season so that they can meet their old friends and relatives

This season I could meet a class mate of mine after a long period. First I could not recognize him as he had shaven his head. I thought he might have gone to Palani or Tirupati and did it as an offering. That was not the reason

He told me that he is on a project in Zurich, Switzerland for a year. A hair cut there is quite expensive at 95 Swiss Fracs which will be INR 10000. The new hair style is going to save him at least one Lakh during the year.

This always happen once you are abroad. We convert the price into Indian currency and find everything prohibitively expensive.

Trading is not different. The thought of money can really mess up our mind especially when we are trading big. As far as money management is concerned taking a trade risking 1% on a capital of 1 lakh and 25 lakh are same. But losing Rs 1000 and Rs25000 are not the same. This will work both ways and will spoil the trade management and exits. A slight adverse movement will scare us whether we are in profit zone or not ,always causing premature exits.

Is there a solution for this? Only way is to focus on the points rather than on money. This will help us to see the market more objectively. If we are watching the market in terms of money we will not be able to scale up and trade big.

Cultivate the habit of watching Nifty points early and make your decisions based on that. Try to manage your money in terms of % value. You can remove a lot of emotions from your trading for sure.

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System Hopping

I remember a story from Kerala folklore "Parayi Petta Panthirukulam".
The story is about 12 children abandoned by the parents and adopted by people from 12 different castes

In this story, "Pakkanar" calls at his elder brother "Agnihotri's" house. He was told to wait because the latter was doing his daily Pujas. Rather than waiting idly, Pakkanar started digging a pit in the courtyard; every now and then, Pakkanar would take a break and ask for his brother - and was told "he is now doing the Homam for Ganapati", "he is performing Siva Puja", "he is doing 'Salagrama Pushpanjali" and so on. For each different answer, Pakkanar dug a fresh pit. This went on for a long time.

Finally Agnihotri finished his rituals and came out to meet Pakkanar - and found his courtyard riddled with several small pits. Pakkanar remarked: "I did a lot of hard work, but no luck; rather than digging so many pits, I should have dug just one pit persistently, I would have found water by now!".

Agnihotri got the message.

Have You ?

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Tacit Knowledge

Over the years many attempts have been made to classify knowledge. These have resulted in many classifications. To make it simple there are two types of knowledge. Explicit Knowledge and Tacit Knowledge. In reality, all knowledge is a mixture of tacit and explicit elements rather than being one or the other.

Explicit knowledge is formal and codified. This can be written down, transmitted, and understood by a recipient. Such knowledge can be stored, retrieved, modified and discarded easily. Explicit knowledge can be taught very easily.

On the other hand Tacit Knowledge, sometimes referred to as “Know-How”, is intuitive, hard to define and largely experience based.. It is often context dependent and personal. It is very difficult to communicate and transmit.

The art of trading is a complex mixture of explicit and tacit knowledge. All the successful traders heavily rely upon their tacit Knowledge. It is impossible to convey this intuitive understanding gathered from experience and practice to a learner.

We will remain at a low point of the learning curve with limited tacit Knowledge development. Tacit knowledge is developed by facing challenges to transform ideas into practice. Without continued challenges our development plateaus

Most of the struggling traders focus only on the explicit part and ignore the tacit side. They may probably get “Reputation beyond repute” and win “Thanks” in trading forums but will never succeed as traders.

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Testing Times

I came across a thread started by a young trader at Traderji forum. He is just 25 years old . He lost more than 35 Lakhs in seven months, trading Crude Oil contracts and had to sell his home to make good the loss.Many such people get wiped out by the market

Remember the first law of holes?.
"If you find yourself in a hole,stop digging"

If we are in such a situation, the best thing to do is to stop trading. Do not think that we can turn around and recover the losses with a different strategy. It will never happen. We will end up losing much more.

The reason is very simple. The key success factor in trading is "Time". In fact time is a big factor in achieving success in any performance activity. You have to remain engaged in the activity long enough to get good at it.Trading is no exception.We will not develop the required knowledge,skill and behaviours required for trading success overnight.We have to survive a long learning curve before entering the earning curve.

Do you have the resources to stay in the game long enough?

Ensure that you have enough capital to trade and funds necessary to meet household expenses till your trading clicks. Supports from your family and friends are equally important.Without these safety nets in place,do not venture into full time trading.It may end up as a misadventure.

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The Checklist

We live in a world of increasing complexity. Even the most expert professionals in their respective fields struggle to master the tasks. Longer training and use of advanced technology fails to prevent the errors.

While dealing with complex tasks, two types of errors can occur. “Errors of Ignorance” and “Errors of Ineptitude”. Errors of ignorance are errors we make as we do not know enough. On the other hand errors of ineptitude are errors happening when we fail to make use of what we know. Errors of ineptitude are a real problem especially among professionals.

http://atulgawande.com/

Acclaimed surgeon and writer Atul Gawande conducted extensive research on this subject in Health Care He found and adapted the humblest and simplest solution from Aviation industry, “The Checklist”. He published a book on this subject titled “The Checklist Manifesto” which became a Best Seller. (Read Summary)

As you know trading is also a very complex and complicated task. Mistakes are virtually inevitable: It is too easy for a trader to miss a clue, or overlook a prominent level in the stress and pressure of the moment. Failing to notice a small stuff is failing to plan properly for the eventuality

http://niftynirvana.blogspot.in/2012/11/small-stuff.html

Can’t we, traders, make use of Checklists?

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Think Different

Trading requires a different thought process. Logical thinking process will not work well in solving trading related problems. A logical process requires a well defined existing knowledge base to build on. As far as trading is concerned most of the time this knowledge base is vague, irrational and ill defined.

Scientific methods also will not work well. Scientific methods of problem solving start with defining all the parameters of the problem in order to define the solution. This is simply not possible as there are too many variables

Trading requires a creative thinking process. We need to create new knowledge base and approach the problem differently than we have done before. This requires understanding the context, generating new insights and rationally analyzing the various options.

We need a solution based or solution focused thought process. Solution is really the starting point. Problem solving starts with a solution and then moves back to define enough of the parameters to optimize the path to the goal. In other words it starts with the goal or what is meant to be achieved instead of starting with a certain problem and trying to solve it.

You may call this a kind of reverse engineering. Decide upon the kind of move you want to capture and study those moves. You will be able to define enough variables that triggered those moves. Think rationally and apply a “Common Sense” filter on those and focus only on those which are really relevant.

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Thou Shalt Fear

http://www.youtube.com/watch?v=TzmpXz5d2z0

Experiencing fear is normal in trading. In fact, fear is considered as a basic survival mechanism. Without fear, we won't be able to recognize danger and respond appropriately. Fear warns you that something doesn't feel right about a trade, you should try to figure out what exactly is going wrong

Fear may force us to make a decision that goes against good trading habits. It may make us violate our trading plan. We probably go through one of the following at least once every trading session

- We fear our winners will turn into losers and exit, missing bigger profits
- We fear losing money and hold on to losing trades longer, losing more money
- We fear to lose and skip valid trades.
- We fear missing trades and over trade.
- We fear the unknown, we fear the uncertainty.of trading.

No matter how much better we become, we will never stop feeling afraid. No matter how much more experience we get, we will never stop feeling afraid. Trading psychologists may not agree. They will swear and promise us to take our trading psychology beyond fear and help us achieve peak performance. Let them. It is their bread and butter.

There is no other way but to accept fear as a constant companion. The only thing I can tell you is that while the fear never goes away, the more you work through it the easier it becomes to handle.

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Three Thoughts

Trading is just like any other profession like Medicine, Law, Accounting, Teaching and Engineering . It is all about skill development. But unlike trading, these professions have an advantage. We can always conceal our failure and mediocrity there. We can always put the blame on others and situations .We rarely suffers due to our mediocrity and inefficiency. Our client or our employer always suffers. Just think about this for a moment. How many people you know, excel in their chosen professions?

There is no such escape routes in trading. We just can't conceal or hide our mediocrity and inefficiency. Our account will shout it louder. There is no other way but to shoulder the whole responsibility for what has happened. Have you ever thought why most of the traders fail miserably in markets? Let me share some random thoughts.

Every other profession has a well defined knowledge base and curriculum. This knowledge is taught systematically for several months or for many years. There are evaluation methods like tests and examinations to ensure that the students have absorbed the knowledge well. Unfortunately, we traders have no such knowledge base. We have to build it on our own and most of the times we end up with wrong methods

In other professions, after learning the basics, people undergo rigorous training under expert supervision. Doctors undergo clinical practice. Lawyers begin practice as juniors to an expert lawyer. Accountants do article ship and teachers go for education training.
Trading is the only profession in this world where you read a book on weekend and start betting big money on Monday.

Finally think about how much money we need to spend on education to land up in a good profession. We may need to spend several lakhs to become a specialist doctor. How much we need to spend for an engineering degree and a reputed MBA?. Here in trading, people are not willing to spend on education and pay tuition fee to the market. Everybody wants to mint money from day one.

No wonder, people find it difficult to survive as a trader. There are no short cuts. Select a method with an edge and get yourself trained. Be ready to pay some tuition fee to the market.

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Trader Analysis

Market is a dual auction process where multiple buyers competing to buy from the market and multiple sellers competing to sell into the market.Price is where a seller and buyer agrees to transact.Price moves depends upon the demand and supply .Let me try to explain this with a DOM view of a trading platform

BUY	PRICE	SELL	
	10570		
	10569		
	10568		
	10567		
	10566		
	10565		
	10564	207	
	10563	86	
	10562	54	
	10561	24	
	10560	20	
	10559	23	1
19	10558		
22	10557		
29	10556		
24	10555		
43	10554		
137	10553		
	10552		
	10551		
	10550		
	10549		
	10548		

In the above example 23 lots are being offered at 10559. Nearest bid is 19 lots at 10558. Here no transaction will take place.Either the buyers should bid up or the sellers should quote lower.Suppose those who are willing to sell 23 lots at 10559 revises their order to 10558, 19 orders will get executed at 10558 and the remaining 4 offers will remain un executed at 10558 level

Now imagine somebody punching a market sell order of 275 lots . All the bids shown in the above example will get filled and the remaining one order will get filled at a far lower price say 10300 where another bid exists.And it is a Flash Crash.

Price move is a function of demand and supply. Urgency or desperation of the participants move price.Any trading method which is not based on this reality will fail.

Successful trading is knowing where a big enough group of traders will succumb to fear and greed, and acting with or before they act, allowing their order flow to take our position to profit.

What we need is not TA (Technical Analysis) but TA (Trader Analysis)

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Trading and Investing

"When a trade goes bad it becomes Investment"

In reality trading and investing are the same.Actually there is no difference between the two as far as our intention is to profit from the rise or fall in price of a security.

Investors are those who wish to become a part owner of the company and who wants to control the management of the company.

If your intention is to profit from the price move of the security, you are a Trader. Time frame of the trade and the tools used to make the analysis of price can be different. Some use Fundamental analysis others technical indicators or charts of different time frames. Some stay in the trade for a few seconds only and some others stay for months.

Surprisingly when one talks about trading , the person sounds irresponsible and labelled as a gambler although he may be a great risk manager. While if one talks about investing - the person sounds very matured ,conservative and risk averse.

Anyway , I am A Trader and I trade 3 minute chart. I day trade and never take an open position home

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Trading Cults

Traditionally “cult” was a term used for any new religious movement. In fact it is applicable to all walks of life .Broadly it is a group of people intensely devoted to a person, idea, or a movement.

Do we have “Cults” in trading? Yes. I have seen many sites, blogs and forums showing cult behavior. Many of them were started with the noble intention of helping the new traders. Unfortunately most of them have become “cults” over time. If you closely observe, it is very easy to identify cult behaviors.

- The Guru and his teachings are always right, and above criticism. They always glorify the leader. Guru remains a noble gentleman and always the loyal seniors deal with critics.
- Members will be encouraged to confess all their faults and mistakes. They will make you inferior and guilty projecting the leader as a super human. You will never understand you are comparing your performance with something which is not achievable by a beginner.
- The standard answer to your question is a quote from the leader. Members are expected to parrot those answers. Independent or critical thinking is not encouraged. Critical thoughts about the leader or the group are discouraged.
- They make you believe that, what they are doing is of a higher purpose than what anyone else is doing. Others are just doing it for their own sake but Cult members are transforming, building, achieving and doing great things.
- They will provide you a ready-made extended family when you join the group and you will start spending all of your spare time with other members, who are your new circle of friends and will never grow beyond this.
- There are always a few cult members around who proclaim that it is all so wonderful. They rave about how wonderful this group and leader is, and claim they are all making great progress following the Master.
- Sometimes the leader rewards a member with an open praise. Other members will flock to congratulate him and the poor guy feels as if he has achieved something great. Leader only rewards, it is the duty of the seniors to fix you.

You will not get the promised benefits from any of these cults. You just get used and abused. Finally you will become disillusioned and discarded. Avoid Cults like plague.

“It’s your life — but only if you make it so. The standards by which you live must be your own standards, your own values, your own convictions in regard to what is right and wrong, what is true and false, what is important and what is trivial. When you adopt the standards and the values of someone else or a community or a pressure group, you surrender your own integrity. You become, to the extent of your surrender, less of a human being.”

Eleanor Roosevelt

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Trading for a Living

Is it possible for me to trade for a living ?

Statistics says very few can do it. Derivatives are weapons of mass destruction and 95% of the people erode their capital and go broke within a few months. Can I survive in this jungle ?

Before deciding to make such a move. I have to think about my current financial status. Where do I stand now and what are the chances of my survival.

Both of us , me and my wife. are working and our monthly income is around Rs 80000/-. Both of us contributing almost equally. . I have completed the required service for VRS and expect to get a pension of Rs 20000/- per month.

We have built our own house and do not have much debt on it.Major expense in the near future is for my daughters education and marriage which I have to provide irrespective of my profession,.

So survival is not a problem at all. Even if I don't make any income trading for another year nothing will happen.Only thing I have to do is to protect my capital during the learning curve.

I will be happy If I can make Rs 40000/- per month which I am currently getting as salary, I want to concentrate on a single market, Single Instrument and a single time frame. ie 3 minute charts of Nifty Futures.

In order to prevent over trading and limit my trades to quality swing able setups I have limited my maximum trades as 4. Maximum loss per day allowed is 2R (R=Risk)
Let us do some calculation
No trading days in a month =20
Average Profit per day = 40000/20=2000
I plan to take position with 4 nifty lots ie 200 nos
Net Points to be captured a day 2000/200=10
Generally My entry is within 10 points of risk , so Risk =200*10=2000 on a trade.
Never want to risk more than half a % of my capital.
So I may need 2000*200= Rs 400000/-
Maximum Loss a day is 4000 ie 1% of capital
I need to capture 10 nifty points a day to live

Can I do this ?

Let me shout
YES, I CAN

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Trading Hesitation

In trading, execution consistency always precedes consistent profitability. Execution consistency is the ability to act at the right time in the right manner. A method with an edge and a great trading plan is not sufficient to make us profitable. We need to execute the plan flawlessly without hesitation.

This is a major roadblock all the traders face. It is extremely frustrating to see an identified trade moving without us. Why we are not able to pull the trigger at the right time? There could be many reasons. Some of them are no trust in the method, fear of loss or being wrong, Perfectionism and past bitter experiences. May be we are having one or more of these problems.

It is extremely important to identify the real problem and take corrective measures. But it is easier said than done. In my opinion this hesitation is due to the interference of the sub conscious. Our sub conscious is not synchronized with our analytical; rational conscious mind. The real challenge is convincing our sub conscious that we are acting on our best interest so that it will not override. Till then our execution is going to get blocked.

Is there a practical actionable solution for this problem? All these hesitation will get solved automatically once we become consistently profitable. But we cannot achieve consistency without proper execution. This is an egg chicken syndrome. Where do we start?

The best way is to sit beside an expert profitable trader and watch him trade and make profits. Most of us are not lucky enough to have such a person in our family and friends circle. Very few people can join a proprietary trading concern and get trained. So we have to try less efficient methods.

What I am doing is, I have set aside some amount as tuition fee. I don’t care even if I lose the entire amount trading. I am currently trying to execute my method flawlessly not caring about the profits with minimum allowed position size. Of course I am progressing well but it is taking more time than I thought earlier.

Do you have hesitancy in executing the identified trades? How you are dealing with it? If you could overcome it, how did you do that? Your feedback will help a lot of novice traders.

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Trading is Hard

Trading is simple. No doubt. But learning to trade is really hard. People want to make trading simple. They want to reduce it to a few simple setups that can be traded mechanically with discipline. I warn you, this is not going to work.

The reason is Markets are not simple. It is all about ambiguity, complexity and uncertainty. Simple setups that can be traded mechanically will never succeed consistently. It is not going to give you an enduring edge.

Traders want everything clear cut, rule based and mechanical. But every moment in the Market is unique and mechanical methods are not going to capture it. If you are approaching price action trading this way, I am afraid you are practicing a useless skill.

Try to develop a contextual view. This involves synthesizing different elements like location, space, order flow etc and much more. Learn to execute the trades in this context. I would like to remind you that learning all this is complex and will take time.

Don't be afraid and disheartened. This is not an impossible task. Many traders have done it and achieved trading consistency. If they can do it, we can also. We are also made of the same stuff as they are.

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Uncertainty

Have you ever bet on a Money Wheel ?
Money Wheel is a crude Roulette.Money Wheel simply have a couple of symbols on it.To play, place a bet on one of the symbols on the betting table and spin the wheel.If it lands on your symbol you win.Long back we used to bet on this and lose money during village fairs and temple festivals

I don't remember feeling bad or getting frustrated after a loss.I think it was because we were well aware of the probabilistic nature of the game and the results are uncertain and random.We never did bet more than we could afford to lose

What about a trading loss? We feel upset ,angry, and betrayed after a loss.We feel betrayed by the Market, We feel betrayed by our method and start doubting it. (I am sure Some of us may even feel betrayed by the person who taught the method and will curse him) The problem is we are not accepting the uncertainty of the Market.The only thing certain in trading is the Uncertainty.No matter how good your analysis, no matter how perfect your set-up , once you enter a trade anything can happen.Anything can happen at any time!
Even a single order can cause a flash crash in Markets (Read) http://niftynirvana.blogspot.in/2012/04/trader-analysis.html

Embrace the uncertainty and accept the probabilistic nature of the market. Do enough back testing and forward testing before accepting any method.Do not bet on it until you have total trust on it.If you are convinced that the method is effective, stick to it.Never be tempted to throw away your trading system due to a loss because losses are expected from time to time.
Take massive action and conquer the final slippery slope http://niftynirvana.blogspot.in/2012/08/slippery-slopes.html

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Unfocus

Learning to perform complex tasks requires a lot of training and deliberate practice. Some tasks could be so complex that it cannot be learned as “Whole”. Complexity of challenges may cause people to freeze or ignore the situation. This will lead to disasters.

The only way to learn such a complex task is to sub divide it into many manageable fragments and focus on these one by one. Remember how we learned to drive a car. We were taught to use the steering wheel, clutch, brake, gear and accelerator pedal. We were told to concentrate on the road, pay attention to the rear view and side mirrors. It was easy learning it one by one.

The real problem was integrating all these learning. We always forgot to depress the clutch while shifting gears and failed to reduce the accelerator while depressing clutch. The vehicle zigzagged when we shifted gears. It really took a lot of deliberate practice to learn the task and to achieve “Automaticity”

http://niftynirvana.blogspot.in/2012/05/automaticity.html

Integration of all these focused learning is very important. Integration means to bring together. It is an act of combining or adding parts to make a unified ‘whole’. Integration is critical to success.

Integration is achieved by “ Unfocusing” . ‘Unfocusing’ is to stop focusing on a component and to concentrate on the ‘whole’ thing. We gain clarity of the whole of the situation. We are able to quickly make better decisions and perform the task as a ‘whole’

Knowing all about the DPs , trade setups, and all other concepts will not make us a successful trader. These are all individual components. The successful integration of these knowledge matters.

We cannot leave integration to chance. Integration does not happen by itself and needs constant attention and practice It is only when we learn to unfocus, to pull back and sense the ‘whole’, that we achieve the clarity we need to move ahead.

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Visualisation

Visualization can help us very effectively to reach our trading goals.I have written an earlier post that fantasizing about our future success will do more harm than good.(Read). People think mentally simulating an outcome will help them to reach the goal. Wrong http://www.niftynirvana.blogspot.in/2012/07/fantasies.html

But another kind of Visualization can be very helpful in achieving our goals. Visualize the process through which the end goal can be achieved rather than the end state of achieving it.Thinking about the process will help us to focus and identify potential problems and probable solutions.

Vtsualisation is nothing but mental practice. Mental practice is as good as real practice,because our mind interprets reality and imagined things similarly and both strengthen and reinforce our neural pathway.By practicing something in mind, we are effectively increasing our training time.

As I am still working and not a full time day trader, my screen time experience is very little. I have compensated for this through effective visualisation of my trading process on historical charts. I have done this on a thousand charts at least.I just open the historical chart and walk through it bar by bar, paying attention to the locations, patterns and trade setups.This has helped me a lot to streamline my thought process during live market.. Choose the behavior we want while trading and use mental practice to reinforce it through visualization.

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Vuca,Vuca.Hey

The word “Vuca” means “wake up” in Zulu language. But the acronym VUCA is originally a military term which became popular at the end of the cold war. Today it has become a widely used description of the current global economic situation. VUCA stands for Volatility, Uncertainty, Complexity and Ambiguity

Volatility is turbulence and refers to the nature, speed and magnitude of change that is unpredictable. Volatility creates uncertainty where past events cannot be used to predict the future outcomes which make decision making difficult. Numerous and difficult to understand causes adds layers of complexity to the process which may lead to chaos and utter confusion. This leads to the last acronym Ambiguity. The end result of VUCA is the inability to capitalize opportunities and identify threats before it becomes lethal.

Companies worldwide are spending billions of dollars to train their managers to operate in VUCA environment. They mainly focus on another VUCA for this. Managers should have a clear Vision about the future of their institutions to counter volatility. Leaders must learn to look and listen to make sense of the volatility and to lead with vision. They must have proper Understanding of the big picture. Managers should have Clarity to counter chaos and take effective decisions. Ambiguity can only be countered by Agility, the ability to apply solutions quickly.

As day traders, we are operating in a VUCA environment from open to close everyday. We are taking countless decisions on a day today basis. How many crucial decisions a CEO or manager has to take during his tenure?, I wonder. In my humble opinion day trading must be included in the business school syllabi. Let them learn something from us.

Anyway, learn to navigate through the VUCA environment with Vision, Understanding, Clarity and Agility.

Remember the song Vuca,Vuca hey hey. Wake up, Wake up.

http://www.youtube.com/watch?v=dzsuE5ugxf4

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Way to Go

Decision Point trading method is in public domain for more than two years now. I am very happy to note that many people are trading the method very consistently and profitably. But still a lot of readers are struggling and not getting the desired results.

http://niftynirvana.blogspot.in/2012/08/slippery-slopes.html

In an earlier article titled "Slippery Slopes", I have written about the process of trader development. It includes defining a structure, finding tactics to trade the defined structure and deliberate practice to gain execution mastery. Here we have a well defined structure and effective tactics to trade that structure. For the time being do not tamper with these.

Almost two third of the work is over. Now you need to work on execution consistency. To execute the method consistently without hesitation three things are needed.These are knowledge of concepts, belief in the method and, trust in our own ability to execute. These will not come easily. It may take some time and you need to survive in the market till it clicks.

If you proceed systematically, you can cut short this learning curve without serious damage to your capital, financial as well as emotional. Let me explain how to go about this.

1. Read all the important posts repeatedly so that you will have a thorough knowledge of the concepts. Go through the past trades posted to know how the concepts are applied in real trading situations. Do not skip the comment section
2. Go through the historical charts and mark the trades on them on your own. Do it slowly and write down the reasons for your action and inaction. Do it at least on hundred charts. More the better
3. Simulate the trades with a software analyzing bar by bar replay. Do the simulation on at least a year's data. More the better.
4. Watch the market live and identify the trades. Entries and exits. Do not trade for a month with real money. Do it till you get a feel of the price action as it unfolds.
5. Go live with a single lot. Focus on execution rather than on money. Your aim is to perfect your execution.
6. Focus on a single pattern first. I will recommend the BOF. For a month do not touch anything other than BOF
7. You need to wait patiently till a good setup appears. The "Itch" to trade should go.
8. In trading quality is more important than quantity. Trade less and win more. Skip low probability trades because losses can add up quickly in day trading.
9. Cut your losses quickly. When in doubt get out. Preserving the capital to fight another day is the first priority.
10. Finally do not mix and match any other concepts with this initially. Once you gain experience you will know what goes well with this. You can have whiskey on the rock or with water, soda, and cola. But never with buttermilk. .

Slow down and always under trade. This is purely a discretionary method. You need to train your brain. It will not happen in a day. Please do allow enough time for it to get hard wired and develop "Schemas". Remember this is a skill with life long utility and be willing to go through a little hardship.

Read

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We’re not good enough to be disappointed. We’re bad enough to get to work.

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Waypoints

Waypoints are sets of coordinates that identify a point in physical space. Waypoints have become widespread for navigational use by the layman since the development of advanced navigational systems, such as GPS.

In olden times also people traveled using reference points. Traditionally these have been associated with distinctive features of the real world, such as rock formations, Rivers, Mountains etc.Later on artificial reference points such as Buoys, Light Houses,Radio Beacons Sign boards were created to aid navigation.

In order to navigate the chart space traders also use some reference points. If we are not aware of these reference points we will not be able to trade successfully.. It is a fact that big money traders move the market on a day to day basis especially in small time frames. They are creatures of habit and they react to these reference points in the same way again and again.

Pay attention to waypoints such as PDL,PDH,PDC,DO,HOD,LOD,DT.DB etc.

If you want to win, swim with the sharks and hunt with the hounds.

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Win More, Lose Less

http://niftynirvana.blogspot.in/2012/08/slippery-slopes.html

I had written an earlier post about the three stages of trader development. (Read). This includes defining the structure of the Market and finding ways to trade the moves within this structure. Rest is gaining practice and experience to execute your methods without hesitation.

So it comes down to a method with an edge and execution skill that will not erase the edge in the method. Edge is simply the positive expectancy of the method and this positive expectancy is not a result by chance. Edge is non randomness.

How do we know our selected method is having an edge? It is very simple. The method will win more and lose less.

Win More, Lose Less
Most of the trading methods barring few option strategies require directional price movement. We are betting on these price moves. We win by accurately assessing these directional moves. If we are right more than we are wrong in this skill, we will win more and lose less.

Win More, Lose Less
We must win more money if we are right than what we lose if we are wrong. The gain we achieve if we hit our target should be more than the loss we suffer when we get stopped out. In other words Risk/Reward should be favorable

Win More, Lose Less
We need to bet big and win more when we are right. All trading opportunities are not equal. Betting big on high probability trades and being modest on lower probability situations will boost our performance. Position management is very important in trading.

Almost all the new traders focus only on the first thing as they want to be right always and out smart the market. Real break through in trading will come once you shift your focus on to the other two.

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