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

Sunday, May 11, 2014

## 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.

Posted by [SMART Trader](#) at 2:37 PM



### 3 comments:



[amber](#) May 11, 2014 at 5:54 PM

Sir good evening and nice write up  
[Reply](#)



[Trekkie](#) May 12, 2014 at 10:12 PM

Thank you ST. Very nice article.  
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[Trekkie](#) May 15, 2014 at 6:27 PM

Thank you ST, nice article. Now... if only I could get my fuzzy logic right! Sigh!! you have shared a wealth of information and I am plugging through it, slowly but steadily. Actually, I started trading the method (or rather what I thought was the method) about a month ago, but did not fare well at all. So started going through everything diligently again and have been realising that when I started trading I had not even assimilated 10% of the material. Thank you for all the education and for patiently answering the many questions as well.  
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    - [05052014](#)
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  - [April](#) (22)
  - [March](#) (24)
  - [February](#) (21)
  - [January](#) (26)
- [2013](#) (299)
- [2012](#) (338)