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

Friday, February 22, 2013

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..

Posted by [SMART Trader](#) at 8:33 PM



5 comments:

[Anurag](#) [February 22, 2013 at 10:45 PM](#)

Superbly written ST sir. Even after identifying right location, there are bigger challenges behaviour modifications, tackling greed n fear etc.

More or less I am able to identify location but incurred frequent losses (expenses, as u put it) due to various behavioral reasons; jumping the gun, letting profits run into losses, taking lucrative but less probability CTs n similar others reasons.

Off from trading for almost a month, just analysing the market, though getting my confidence back...but I know locations and patterns are more clearer in hindsight or when we are not actually trading :)

Reply



[SMART Trader](#) [February 22, 2013 at 11:30 PM](#)

Anurag

The root cause of the problem is not Fear, greed or indiscipline. It is uncertainty. Human mind hates uncertainty and will override all the rational thinking. That is why locations and patterns are more clearer in hindsight or when we are not actually trading

Taming the mind is not impossible. it may take some time. Most of the people will not stick they will blame the method and flirt.

The grass looks always greener on the other side.

ST

Reply

Anurag [February 23, 2013 at 12:03 AM](#)

Rightly said sir, that actually is the cause. We have been trained all through our life to be sure (doubly sure) before taking actions, and trading is altogether a different game. I am working on that aspect, there is progress though very slow (unlearning is not easy), but definitely things are improving.

Flirting with methods/strategies will never let us go to next level of challenges that lies with our beliefs and thought processes, which I may say are bigger than finding a method that provides us an edge that suits our trading style.

Though you keep on posting amazing articles on behavioral aspect of trading as well, but will request you to provide more guidance on the same.

Reply



VK [February 24, 2013 at 11:51 PM](#)

Hi ST:

Good article ST. Well written and you are absolutely right location is important and the uncertainty creeps because of too much of time spent to fish for an entry point to trade.

Vinod

Reply



SMART Trader [February 28, 2013 at 10:06 PM](#)

Vinod

Thanks

ST

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