

Use this edge to trade successfully

Today we talk trading. Specifically, I want to share an idea with you that could be a real breakthrough if you're interested in making big short-term gains from the stockmarket.

I'll warn you though... it goes against much of what you might have been told about what it takes to be a successful trader. More on that in a second!

Earlier this week our trader and tech investor Eoin Treacy flew in to London from his home in Los Angeles to explain exactly how he's trading the markets this year on camera. It's all a part of a trading training program Eoin and I have been putting together (it'll be finished in the next couple of weeks – and it'll be free).

That's one of the things I really enjoy about working with Eoin. He's not just a successful trader. He's also an educator.

He spends a big chunk of his year flying around the world teaching budding traders – a mixture of home traders and institutional traders – how to read the markets, how to spot opportunity and how to take it.

That's pretty unusual. It's a rare skill to be able to teach other people to read the markets and make money. Most trading involves a system of some sort – a proprietary set of indicators to be closely guarded and highly valued. So most people don't go around giving those ideas away. If they do, they'll likely give you the “system” without really explaining the mechanics of it.

Eoin is the opposite. He shows people exactly how to look at a market and see opportunity where other people see chaos – *without relying on an automated system whatsoever*.

I flew him in from LA to explain how he does it... and how you can do it too.

Emotional machines

To explain why, let's take a detour into the tech world. Don't worry, it'll be quick and instructive.

I've spoken to you a lot about the huge leaps forward the field of artificial intelligence (AI) has made in recent years. That's mostly down to something called machine learning. It's essentially highly advanced pattern recognition. Give an algorithm enough data to parse and it can start to recognise, and even predict, patterns and events.

Just a couple of weeks ago researchers announced another step forward for the field: the development of an AI that could “understand emotion”. Those quotation marks represent my scepticism, rather than a direct quote.

There were two developments that fit the story. The first was a “face rotation model” that parsed thousands of Chinese ID photographs and was able to identify which people had committed a crime. It had a success rate of 90%.

The other development came from a company called Beyond Verbal. Its AI model can detect people's emotions by listening to their voices. The ultimate goal is to help autistic people identify other people's emotions.

They're both interesting stories. But are we really talking about a machine *understanding* emotion? Recognising it accurately is one thing. It's just a pattern though.

Perhaps guilt shows itself as a recognisable pattern on someone's face. View enough guilty faces and the machine spots the pattern.

The same goes for people's voices. Our emotional state affects how our voice sounds. That becomes a pattern to be recognised.

Recognition and understanding are different things though. True understanding of emotion requires – at the very least – a predictive element: how will this event make that person feel afterwards? How might they respond based on those feelings?

The real question here is: can machine's *ever* truly understand emotion?

If your answer was an emphatic, “no” (or a less emphatic, “not for a long time”), then you’ll understand exactly why Eoin’s trading strategy is so effective and unique.

And to be perfectly frank, once you understand how it works you’ll be in a position to absolutely clobber the markets.

Markets are man made

At the heart of how Eoin approaches trading is a simple but powerful idea.

Data doesn’t drive markets. People do. And people are inherently emotional.

That’s why purely automatic, algorithmic-based trading systems can never truly work. They may work for a while in particular market conditions... or within a specific trend. But they’ll always need updating, tweaking and refining to reflect the markets.

Why? Because the markets are driven by emotion and an automated system cannot understand emotion!

Yes, data is important. World events will move markets. That’s true on the big picture level – take the US election or Brexit – as well as the micro level – like a new product launch for Apple or Tesla. But it’s not the data itself that moves the markets, *it’s our emotional response to it!*

That single fact is your edge in the market. A huge edge, if you understand it. It turns trading from a complex process of looking for a vast number of “technical” indicators to find a buy signal... into behavioural psychology.

This is actually an idea that crops up elsewhere. Think about the Warren Buffett quote to “be greedy when other people are fearful”. That’s not a data driven idea. It’s entirely emotional. It recognises the inherent fact that markets are made by man’s emotions.

That’s Eoin’s speciality. He’s often described his trading epiphany to me as the moment he realised each of his trading positions were like relationships. They’re easy to get into but hard and painful to get out of if things go wrong. They’re emotional relationships.

And they are for *everyone* in the market. All the market really is is a million-strong crowd of people, who are interpreting data emotionally and acting on it. Understand how that moves the markets and you can make an absolute fortune.

He’s developed his trading technique to capitalise on the psychology of the crowd (he even wrote a book on the subject called *Crowd Money*). And he’s figured out how changes in the psychology of the crowd manifest themselves in a recurring three-stage pattern in the markets.

Trading this pattern is his forte. It’s what he teaches other people to understand and trade for themselves. Like I said, it’s deceptively – refreshingly – simple to do. That’s probably why so many people all over the world use Eoin’s ideas to trade the markets.

Eoin went into more detail on his strategy with me earlier in the week, including specific examples of what he’s looking for and how to trade it. I recorded the entire conversation. It’ll be a part of our free four-part training series coming up later this month.

If you’re a trader – or want to be – you won’t want to miss it!

Until next time,

Nick O’Connor

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