Trading Sandbox Free Info Pack

Hi! Russell Butler here, I’m a scientist/programmer (PhD + Bachelor’s of Computer Science), and I’ve been involved in currency trading for over 10 years, with the past 5 devoted exclusively to developing and testing custom Autotraders. Congrats on downloading this free info pack and taking an important step in your trading career. In the following pages, I’m going to lay down some **basic truths** about the Currency markets and Financial markets in general, so get ready to have everything you know about trading challenged!

**Here are some basic truths about the market that may surprise you:**

**1) The currency markets are *extremely* random**, and it takes hundreds or thousands of trades using a specific system to arrive at a statistically significant conclusion about the system’s validity.Therefore, it is *impossible* to know if a system works or not based on a few dozen trades in demo or live accounts,which is why 95% of all traders lose money. People think they are following a system, but in reality their entries and exits are completely random, and eventually lack of discipline or the spread eats them up.

What do I mean by random? Here is a quick example:

I’ve plotted two charts, each with moving averages and Bollinger bands.

One chart is real historical data from EURUSD, and one chart is random numbers generated by my computer. Can you spot which one is the real market data? Didn’t think so.

Trends, support/resistance, overbought/oversold, etc. picture

This is why, without validating your trading system ahead of time, you are almost guaranteed to lose. You are basically tossing a coin each time you place a trade, except each time you toss the coin you also pay 1cent to your broker (spread), so after a certain number of tosses, you end up broke.

Don’t lose hope - the markets aren’t completely random, and **there are edges** that exist which can lead to consistent profits, but they’re sufficiently random that a few dozen or even 100+ trades over the course of a month are not long enough to determine the validity of a strategy.

The markets are much more random than most people believe – don’t take it personally.

**2) The spread will eventually kill any strategy not based on 30 minute or higher timeframes.**

Using certain indicators on a 1 minute or 5 minute or tick chart will work in theory, but when you factor in the spread, the fluctuations in these time frames are simply too small to overcome the spread. An average win on a 30 minute or 1 hour chart can be in the range of 50-100+ pips, but an average win on the 1 or 5 minute charts is typically no more than 5-10 pips. The margins are simply too small to make it work, and over the course of thousands of trades, the spread WILL eat away all your profit.

Think about it. If you trade the 1 minute time frame, your system will generate **60 times** more buy/sell triggers than if you trade the 60 minute (1 hour) time frames. That means you end up paying the spread 60 times, instead of just once. On top of that, each trade in the 1 minute time frame results in much smaller profit/loss, so the spread takes up a much larger percentage of your profit margin.

Here is an example of a strategy with a consistent edge based on Bollinger Bands (picture of strategy with and without spread). The strategy seems to work on all time frames, but when we factor in the spread, we see that any time frames below 30 minutes results in negative long term profit.

Don’t base strategies on lower time frames – the trades are too frequent, and the moves are too small – you will get eaten alive by the spread.

**3) Some indicators work, and some don’t - period!**

But most people have no idea which indicators to use and which not to use.

There are good and bad indicators. Some work and some don’t. What do I mean by this? I mean some indicators give you a systematic edge, and some don’t. How do I know this? It’s actually very simple to verify using a bit of programming. Here’s an example using two different indicators, 1) The moving average and 2) Bollinger bands.

1) Moving average: a common strategy is to buy when the price cuts up through the moving average (green circles) and sell when price cuts down through the moving average (red circles). But does price cutting up/down through the moving average actually mean anything? If you isolate all such occurrences over a 4 year time period on the 30 minute charts, we see that in fact, price cutting through the moving average means absolutely nothing! It isn’t more likely to go up, or down just because it cut through the moving average. You would be just as well off to flip a coin and enter the market randomly.

2) Bollinger bands: another strategy would be to buy when price touches a lower Bollinger Band (oversold condition), and sell when price touches an upper Bollinger Band (overbought condition). If we again isolate all such occurrences on the 30 minute charts, we actually find that indeed, on average, after price touches the upper Bollinger band it ends up 15 pips lower 3 hours later, while there is a similar but inverse scenario for the lower Bollinger band.

These are just two small examples on a single currency pair and time frame, but they illustrate the point – **some indicators work, and some don’t – period!** Knowing which ones work and which don’t are crucial to trading success and will make or break your trading career. Trading using indicators that don’t work is akin to flipping a coin and entering the market at random.

**4) Following from #2 and #3, there are strategies that work – and there are strategies doomed to fail.**

**Trading psychology and discipline are overrated.**

When people fail at trading, they often blame their “trading psychology” or “discipline”. In truth, discipline comes from knowing you have a strategy that works, not from “being strict with yourself”. Yes, you need to be strict and follow your strategy precisely, but if your strategy sucks, discipline gets you nowhere! It’s very simple – when you know what to expect from your strategy based on extensive historical tests, and you aren’t obtaining the expected results in the live market – you just stop trading, because you know it isn’t working!

Instead, most people after a string of losses just tweak their system a bit and go back to trading the same failed system – with absolutely no evidence that this new system is any better than the old system.

You can’t blame discipline or trading psychology when you have no idea what to expect from your strategy over the course of 10, 100, or 1000 trades. You don’t just need to follow a plan, you need to follow a plan that works. No amount of discipline will help you if your strategy is doomed from the get-go.

Pitch:

If you could pay 50 bucks and have a genie tell you – you will never succeed in trading – would you do it? At worst you will have spent 50 bucks and saved yourself countless hours of pouring over charts.