

Title:

Insight Into Trading - What Percentage Of Your Trades Are Winners?

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Summary:

An Inquiry into Trading Systems, Money Management and the Human Psyche

At a recent seminar, I got involved in an interesting discussion with other attendees centered on trading success. More specifically, the percentage of successful trades and the percent of accuracy you should realistically expect from trading.

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Article Body:

An Inquiry into Trading Systems, Money Management and the Human Psyche

At a recent seminar, I got involved in an interesting discussion with other attendees centered on trading success. More specifically, the percentage of successful trades and the percent of accuracy you should realistically expect from trading.

For whatever reason, our minds tend to focus on accuracy as the primary way of evaluating a speculative endeavor. True to form, accuracy - our mental magnet of making money - has very little to do with finding success.

Reality - No Great Expectations

By and large, the record of the past teaches us that on balance, the investment newsletter writers (commodity, stock or mutual funds) don't do such a hot job. As a result, taking a quick peak at the advisors' percentage of accuracy in picking winning trades should prove to be at the very least - interesting.

In looking into this I primarily focused on: Of the small percentage of winning services, what was the accuracy percentage of these most profitable advisory services?

I arbitrarily selected the March 1993, January 1996, March 1997, May 1998 and

June 1999. What follows are the figures for the most profitable advisors / service for that month and their percent of accuracy of all trades for the prior 12 months.

Mar 1993 Commodity Timing . . .	\$60,939 . . .	51%
Jan 1996 Moore Research . . .	\$84,643 . . .	52%
Mar 1997 Turtle Talk.	\$79,244 . . .	42%
May 1998 Commodity Timing . . .	\$90,430 . . .	47%
Jun 1999 Moore Research	\$102,605. . .	54%

A key point to remember is that these results are the "best of the best" for the above time periods. On average these services were right 49.2% of the time - our first indication that accuracy percentage doesn't necessarily have much to do with making money.

Consistent Winners

During the selected timeframe there were four advisors / services that substantially outperformed the others. In other words - they made money. Before we look at their figures, let me point out that none of the top four performers base their approach on the "magical and mystical" stuff like Gann, Elliot, Astrology and the like. In fact, advisor letters touting those methods have the worst performance. The winning letters are, by and large, trend followers to one degree or another.

With that in mind, here are the ones that I feel had the best performance. The market letters that had the most consistent and profitable performance and their percentage of winning trades. The dollar figures represent the money they made from their recommendations for the prior 12 months from each of the reporting dates listed above.

Top 4 Newsletters	5 Year Total Profits . . .	% of Winners
Commodity Research Bureau	\$158,840	48%
Commodity Timing.	\$224,239	47%
Commodity Trend Service	\$214,858	32%
Moore Research.	\$242,253	51%

Clearly, the winners are not particularly accurate - just very profitable!

Now the question begs - What allows them to make money with what would appear on the surface as mediocre accuracy? The answer lies in one of the oldest adages on the street... let your profits run and cut your losses short. In terms of math, this simply means that their average profit per trade is substantially greater than their average loss.

The message should be clear and is one based on how real people did in real time and in real world trading - accuracy really doesn't matter all that much. On a side note, the next time someone tells you that all newsletters are a bunch of hot air you may want to show them the figures above.

Of course, the counterpart is that you must not take quick little profits. To succeed in this business you've got to hold on for large winning trades because as you can see by these real world examples - accuracy doesn't make you money.

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