

Title:

Trading with Root Cause Analysis

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372

Summary:

Root cause analysis is another tool that traders could benefit from

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Article Body:

If you have read my article on Pareto charts this will probably make more sense to you.

Root cause analysis is another tool that traders could benefit from. I know that some of these things do not seem trading related, but you can improve results with them. When all is said and done results are what matter anyway.

On your pareto chart you have identified weaknesses in your trading style. Root cause analysis is how you start to fix them.

First we need to identify the most prominent cause of failed trades. Once this is identified you will need to write it at the top of a separate sheet of paper. Below this you will ask a question. What caused this reaction? Then you list the answer. Now ask yourself the same thing about this new answer. List it. You will continue to ask yourself this for each new answer, until you cannot come up with an answer. Generally, you will only be able to go about 3-5 levels deep. This is your root cause. This is the start of the path that leads to the losing trade.

When you have reached the root cause you have one more question. How do I avoid this root problem.

If it is a emotional problem maybe, you need to work to become more self aware of the feeling that starts a process of bad decisions. When this feeling starts to erupt, just exit your positions and and stop trading for the day. It is better not to trade, than trade and lose.

If the problem is psychological, maybe you need to find a routine that works for you.

A good example of this is a baseball pitcher. A major league pitcher has all the physical requirements, or he would not be in the majors. Some pitchers have been known for having quirky routines they go through on each pitch. There are some pitchers who have had terrible seasons because they lost something in their routine. Their physical attributes have not changed, only their mindset. Their routine is only psychological, but the results of it being off are all too real.

Of course, if it ends up being the system the fix is obvious, scrap it.