

Title:

What Are the Hidden Odds of Trading

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506

Summary:

Anyone who is vaguely familiar with gambling knows that the house has the odds in their favor.

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Article Body:

Anyone who is vaguely familiar with gambling knows that the house has the odds in their favor. Do some people leave a casino with large winnings? Yes, but that's because they left before they lost it back to the casino. If they had won and then continued to play long enough it is a mathematical certainty that would lose all of it back to the house. I watched a program one time about a group of students from MIT that had developed a system to beat the odds in blackjack. The program stated they had won large amounts of money before they all were blacklisted from the casinos. The system they used involved waiting to place large bets only when the cards were in their favor.

This system works, it's called card counting and others have used it to win in blackjack also. By placing minimum bets on almost all the hands played they controlled their losses. When the cards left in the deck were in their favor they would place large bets and win most of the hands. During this streak of winning they would make up their losses and turn a profit. When a new stack of cards is brought out to the table they would leave and cash out because with the introduction of a new stack of cards the odds swing back in favor of the house.

If they had stayed for more hands they would have slowly chipped away at the winnings until it was gone. In trading the house doesn't exactly have odds but commissions and slippage amount to odds against you. If you are new to trading you are probably thinking that commission and slippage are not that big of a hurdle. Well, I tracked it one time in my account, at the time I was daytrading. After six months I had lost more to commissions and slippage than I had lost on losing trades. Also keep this in mind I only traded on average 3 times per day and had a profit 66% of the time. During that six months I had only realized an increase of 5.5% in my account balance.

Now that would be fine if you are trading a million dollar account but I wasn't. At the time I tried to fix my system which ended in disaster because I began to over trade which resulted in more losing trades than winning trades. What I failed to realize was that my winning system did not need to be fixed my money management skills did. Later when I realized that money management was the problem I went back to my old system with a few changes to the money management rules that I follow and performed much better. If you really want to become a better trader focus on the money management side of your trading. The markets go up, down, and sideways you cannot control the market. We need to focus on the things we have control over and money management strategies are a good place to start.