

BE IN HARMONEY WITH THE MARKET

By Craig Corso

We make money trading when we are in harmony with the market. We are long when the market is going up, and short (or flat, if you are phobic) the market when it is going down. If we bring an 'option' with us while trading, we will end up fighting the market. We keep trying to go long as the market is declining, or we keep shorting a market that is in a bull phase. One of the primary rules I learned as a young trader is that the market "programs you to do just the opposite of what you should be doing."

DON'T FIGHT THE MARKET

Fighting the market is not good for two reasons. First, we lose money. How much we lose depends on how well we are managing our money and controlling our risk. Second, fighting the market affects our judgment, and causes us to try to confirm that our judgment is correct. Some very high level market analyst will persist in fighting a trend so that we will eventually be proved to be correct. They figure that if we persist long enough, no matter how long it takes, we will eventually be right. In some cases the "technical price" level is so far away that by the time the forecast is negated, the inventor following the advice will have lost a large sum and missed a fine opportunity on the other side of the forecast!

By analogy, there is a reason for leaving your car downstream, launching your canoe upstream, and paddling downstream. It is much easier and eminently more fun to go with the flow and paddle downstream. We could do the opposite and paddle upstream, eventually we may even get to our destination, but the cost would be substantial. It would take much more time, more physical and emotional stamina, and we would be constantly fighting the current.

Reaching the goal would not be worth the cost.

From a system trading point of view, it is seen from a different set of constraints. The technical or priced based strategy that gets you into a trade also has a priced based signal that says "the strategy is wrong get out" or "the strategy is wrong reverse your positions". The problem with relaying on price to tell you that you're wrong is that *the market does not care*. So like the unmoved market analyst that says "it's only a bear market rally", at some point money management, risk manage has to come into play, It is a necessary evil.

LET THE MARKET TELL YOU WHAT TO DO AND WHEN

Learn the language of the market and don't the hype from the pundits on the business news canal. They tout to sell air time. Follow the market like a woman follows her dance partner, this is one time that keeping in touch with your feminine side will pay off.

The correct attitude for successful trading is to let the market tell you what to do. If the market says to go long, buy, and if it starts to go down, sell. This sounds easy but it is much more difficult than you think. We always like to believe that we can be in control. We want to be in control of our trading and of the market. If you accept the notion right now that you cannot control the market, that all you can control is your execution of trades, you will take a great step toward being a successful trader. With automated handling of your trade plan or mechanical strategy you have taken one more variable out of the equation thus helping you create an environment that is more suited to successful trading.

Stop trying to control the market. Let the market strategy, your system take you long rather than you personally trying to predict or decide when to go long. Let your system do the work, you will have plenty to do controlling other factors like risk and portfolio management. There is plenty to keep you challenged so why over do it, work smart.

DON'T TRADE FOR THE MONEY.

I have met many successful people, and the one thing they have in common is that they love what they do. Many have told me they can't believe they actually get paid for doing what they do. They have so much fun they feel guilty taking money for doing it. Many successful people will tell you they would do what they do even if they weren't paid at all.

Work hard and love what you are doing and the money will follow. Successful people work first and count the money later. Sometimes they don't ever count it, and some don't even know (or care) how much they have. They just know that they have enough to allow them to continue what they are doing; working hard and having fun.

I know that many individuals want to trade because they think that they can make a lot of money easily and quickly. Because of the low start-up costs for trading as compared to other businesses, they think that trading should be the easy road to riches. Their goal is to make a lot of money fast. These are the people who come to seminars and want an indicator that will guarantee profits. They don't want to learn the ins and outs of the business; they want the magic indicator that will get them the money they desire. I feel that the majority is built this way and one of the reasons why 95% of traders don't succeed.

CONCENTRATE ON EXECUTION

Trade execution is very important. It is the same in sports – you can have a good team, a very talented team that you put on the field. But if they don't execute the plays like they're trained to, the team will probably not win. It's a simple fact of life. You've got to be able to execute. Tiger Woods can have a game plan when he hits that course, but if he doesn't execute

and follow through his game plan, no matter how talented he is, the competition is going to beat him. This is a very important factor in trading a portfolio of technical or priced based strategies that is grossly overlooked. You need to get the execution of trades correctly day in and day out, because there's just one or two missed opportunities which get away that could have made your month or there can be mistakes that can take away weeks and weeks of profitable work. This is where the use of good automated trading software can control some of these variables.

GIVE YOUR TRADING SYSTEM ENOUGH TIME TO WORK

We tend to be impatient, and we sometimes think that we should get instant gratification. This will not work in trading. The only way you will really know whether you are a successful trader is to be successful over time. A week or a month will not be enough time to tell you how you are doing. If you started any other type of business from a car wash to a restaurant, you would provide it with working capital to pay the bills for a certain period of time until it becomes profitable. You should do the same with trading; the objective is making money in the long run.

DON'T THINK LIKE A MACHINE

If being a successful trader was as simple as moving an object from point "A" to point "B" in a step wise fashion a trained ape could do it. It is implicit in the way the majority of speculators think which assumes that circumstances are predictable and can be controlled, which leads to their downfall. This may be true when there is a small number of factors that influence the outcome. However, when it comes to the price of anything in a free market that is determined by supply and demand, there are too many factors for it to be predictable and controlled. This does not negate the benefits of mechanical algorithmic trading strategies. It only puts the onus on risk and portfolio management at the end of the day.

So do not discount one of the primary benefits of a computerized trading system, the benefit of historical results. These results do give you "an idea" as to the length of time that the system may be in a losing period in the future. The historical results give you a guideline as to how much money may be lost before the program starts making money. If the system has proven profitable historically, it should be profitable in the future. However, it is up to the system's trader to give it the time, capital and management to make it a winning enterprise

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