Explaining Market Success

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Numerous books have been written on the topic of trading success. Nevertheless, it is unclear how expert traders obtain their expertise. Several explanatory models are implicit in market writings:

1) *The psychological model* – What makes great traders, this model asserts, is selfmastery. Great traders don't necessarily possess better trading methods or secrets, but apply common wisdom more consistently, with less emotional interference, and therefore with better risk management. Developing trading expertise is a function of developing oneself in this model.

2) *The scientific model* – What makes great traders according to this model is superior research. Markets exhibit cause-effect relationships, and these relationships shift over time. The role of research is to uncover these patterns and capitalize upon them. Such a model is, in a sense, the opposite of the psychological model. It hypothesizes that, once you discover inefficiencies in the marketplace, these can be incorporated into mechanical systems that eliminate any troublesome human elements from trading.

3) *The hidden pattern model* – Success in the marketplace, this model emphasizes, is a function of understanding. Patterns exist in the marketplace that do not shift over time, but also that are not necessarily observable on the surface. The role of the great trader is to successfully decipher and apply these universal patterns. This is not so much a function of research as experience; such approaches to trading as charting, Elliott Wave, and Market Profile are not systematic approaches to trading, but instead rely on the trader's interpretive skill.

4) *The performance model* – Trading is viewed as a performance activity, like athletics, in this model. Successful trading can be broken down into component skills and aptitudes that can be honed through intensive exposure and practice. Expertise is less a function of explicit research or pattern-based interpretation as rapid execution of perceptual and motor skills.

No doubt each of these models possesses elements of the truth, and it is quite possible that all of these models represent a portion of what it means to be a great trader, not unlike the descriptions of the elephant offered by the proverbial blind men. Models one and four emphasize qualities of the trader; models two and three stress the underlying qualities of the marketplace.

In a sense, these models are like lenses that traders wear, shaping how they view the world and prioritizing what they work on. They reflect deep belief structures about the nature of the world: whether reality is fixed (capable of being captured by universal patterns) or changing (capable of being captured through ongoing research); whether knowledge is explicit (obtained through psychological reflection) or implicit (reflected in performance).

Because these models of market success are drawn from our fundamental views of the world, I suspect that they are far less amenable to modification than is commonly appreciated. A researcher will be turned off by Elliott Wave theory not because of objective evidence (which the researcher finds lacking and the Elliotician sees aplenty), but because the very notion of fixed, unchanging Platonian realities does not mesh with a perspective that emphasizes dynamic interrelationships. To a trader who views trading expertise in performance terms, the idea that success is a function of mindset simply does not register: Can one become a good surgeon through self-development? And yet can one perform without the right internal harmony (as the recent experience of the Los Angeles Lakers demonstrated)?

Perhaps the successful trader differs from the unsuccessful one, not because of the superiority of one model over another, but because he or she has found a model for professional development that fits with his or her basic personality, outlook, and experience sets. The unsuccessful trader may lack a coherent model altogether—impulsively shifting from working on self to working on market, working on research to working on discretionary interpretation. Or unsuccessful traders may pursue models that utterly conflict with their fundamental personalities traits and life experiences, as in the case of intuitive individuals who attempt to force their trading into mechanical schemes. In that sense, the models are like religions: There may be multiple paths toward spiritual growth, but it is necessary to find a path that speaks to you. One cannot be a devout Christian one day, a disciplined Zen practitioner the next, and still later an Orthodox Jew. By asking fundamental questions—Where is opportunity in the marketplace? What competencies do I need to capitalize on this opportunity?—you can begin to grind your own lenses and formulate a plan for furthering your success.

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