The progression of a trader: Surviving to thriving A thread

Your very first aim as a trader should be survival. Survival is built upon the foundation of realistic expectations.

Most people that enter this business expect to get rich quickly. To those who eventually made it, this grossly naïve expectation lies somewhere between comical and insulting.

Far from getting rich quickly, it’s insanely hard to earn even a basic living without a huge deal of screen time, a love for solving numerous problems, the discipline of a religious zealot, zen like patience, nerves of steel, ruthless decisiveness, and an indomitable will.

Rapid growth can be achieved but it is almost always transient; here today and gone tomorrow, a product of high risk, often squandered away as fast as it's made. The real skill is not in making money. The real skill is in keeping it.

A skilled trader’s progress can be broken down into stages. The first stage should be the development of your strategy. You do this by studying the market.

Studying the market is different from learning how to trade. Learning how to trade includes everything from managing risk to managing yourself.

Studying a market is simply the process of looking for an edge. Once you have identified an edge you still have to learn to trade it.

To first develop a viable trading strategy, or edge, you must go through a long period of market observation. You should set aside time for focused learning. If you have other commitments, then success is going to rest on your ability to be organised.

I don’t believe there is a simple formula for successful trading but you can increase the odds by spending time observing the markets, taking trades, recording trades and analysing performance. Many traders have no problem doing the first two. It’s the latter two they skip.

You should test assumptions with scientific detachment. Focus on testing the efficacy of an observation and not on your P&L. As a rudimentary example: Imagine I tell you, more often than not, if you see X, price will go to Y before it goes to Z...

Most traders translate that into: I'm in at X but I’m double the size to recoup the loss in my last trade and if it goes 1/6th of the way to Y and stalls, I will take 1/3rd off and move to breakeven so that if it comes back and hits Z, I have made a profit.

This is an example of focusing on your P&L and not the original market observation. This focus on P&L happens to all traders in the beginning.

However, since it can be detrimental to your success, you must understand when it occurs, what the result of it is and how to fix it.

Let me give you a personal example. When trading certain price action, my mentor taught me to move to breakeven as quickly as possible in order to obtain a "free trade".

I eventually found that although moving to breakeven reduced the psychological pressure because the "free trade" felt comforting, it wasn't conducive to my bottom line.

Time and time again, the market would come back to my entry, hit my breakeven stop and then move in the direction I had originally bet. I suffered this frustration far longer than necessary for one simple reason: sometimes the market rewards you for doing the wrong thing.

If every single time I moved to breakeven, the market took me out and moved to target, I would have learnt far quicker. But naturally, sometimes, moving to breakeven prevented me taking a loss. And that is what kept me doing it.

It is next to impossible to keep a running tally of how different variables affect trade outcomes, in your head. This is why you need a journal.

Eventually, I concluded that upon seeing certain price action and a resulting sharp move in the direction I was placed, I should take profit at the FTA (First Trouble Area), look for mean reversion back to my original entry and then rebid/offer it.

With this realisation, I went from one trade idea that was good when not interfering (and hit and miss when I moved to breakeven), to sometimes three high probability opportunities based on the same idea. My P&L increased massively when I did this.

To me, that's part of the learning process. You look at a strategy and you think "there's something here and it's quite good, but I can make this work better."

People always ask how many trades they need to have taken, to know their edge works. But the length of time they've been trading is just as important.

The biggest tell of a profitable trader, is not simply how many trades they've taken but how long they have survived. This is because market behaviour changes.

Market are always in transition. Sideways markets become trending markets. Quiet markets become volatile ones. Markets have "once in a blue moon" moves: Oil going negative, the Swiss de-pegging, the flash crash in the ES. The longer you trade, the more you experience.

There are a lot of people that are very good at trading one market phase. They send me emails saying: “I’ve finally cracked it. I’m now a prop trader. I’m trading 7 figures”. I ask them how long they have been making money and they tell me 3 months.

For the record, there were several periods during the 7 years I was a losing trader, where I made money consistently for 3 months. I built records in this period, that most traders would envy. And then I would blow up.

I cannot emphasise how little 3 months means. By all means be encouraged but never make the mistake of thinking you have made it.

I once knew a lad, who told me he'd found success after years trying. I asked him what he was doing differently and he told me, he'd realised stops weren’t working for him. He was always getting whipped out with a fixed stop. He said having a "mental stop” was the answer.

He went on to add, that the market had never hit his mental stop because he'd been so accurate with his trades over the last few months. They were almost all sells in the EURUSD. As soon as he said this, alarm bells started ringing.

I pulled up a chart and saw the EURUSD had been in a consistent down trend for the period. Being short only, with no stop, I wasn't remotely surprised he had been making money.

A few months later he emailed again. The trend had changed and he had incorrectly presumed it was only a retracement in the longer term down trend.

Rather than a fixed stop, which the broker activates when price hits it, his "mental stop" relied on him being in the right mental state to admit he was wrong quickly and take a loss. Spoiler alert: he wasn't. And that was game over for him.

This happens to so many traders. They hit a good streak trading a certain market phase (an uptrend, a downtrend or a sideways market) and then give it all back when that phase changes.

This is where time comes in. Markets can stay in one phase for several months but the more time that passes, the more likely markets will transition. If you get a year or more under your belt, there is a decent chance you will experience more than one phase.

So, once you have developed your strategy and sufficient time has passed, your confidence in being able to navigate different market environments should grow. At this stage it is is about working on effective execution.

There is no clear delineation between these two stages. They will overlap as you work on finding an edge and executing it.

However, I've broken them down into two separate stages because having edge is useless if you can't execute it. And having the discipline of a monk is useless if you have no edge.

Time is a finite asset and you can’t buy anymore of it. As a result, you don’t want to be the person that spends years, as I did, getting profitable. Life expectancy is approximately 2.4 billion seconds and you’ll probably spend at least 240 of them reading this thread.

Those who get profitable the quickest are the ones that constantly review what they’re doing. If you can make a mistake once or twice and then commit it to history, you will be leagues ahead of those who must make the same mistake 10 times before they learn from it.

The bottom line is this: Do more of what works and do less, or the opposite, of what doesn't.

And so we move onto the final stage of the journey. This is a level up from simply having an edge and executing it. The upper echelon is the level where you are able to go for the jugular.

This is the level where you have the insight and the nerve to add to winners when everyone is rushing to grab a profit.

This is the level where you are able to adapt to changing situations because you have the experience in solving problems.

This is the level where you know when you can bend the rules and get away with it. The level where you know when a feeling is real intuition and not simply fear or greed based reasoning.

This is the summit of progression.

P.S. Can you guys hurry up? It's super lonely up here. Cheers.