The hard truth of why retail traders don't stand a chance... and how YOU can rise above and start WINNING

# FOREX DREAMING



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# PREFACE

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* * BEEP BEEP BEEP * *

Urgghh… is it 7.30am already?

Monday mornings are just the worst…

While semi-conscious, I'd have to drag myself out of bed, quickly wash up, and rush to the subway so I can get to work by 9am.

If I didn't oversleep and managed to catch the 8.15am train, I'd have ten minutes to get a sandwich and force-feed it to myself before stepping into the office.

And if I missed the 8.15 train… well, I'd just have to stay hungry until lunch time. I hate it when this happens, but there's nothing much I can do about it.

After all, from 9am to 6pm, Monday to Friday, my time didn't belong to me. I had exchanged it for a monthly pay check.

## Fast Forward to Today

I don't remember the last time I woke up to an alarm clock, and I no longer own a single pair of work pants. Any time I wish, I can go out for a meal for as long as I like.

Instead of spending long, dreary days in a cubicle, I've toured more than 20 cities spanning 17 countries, and have lived in two of them for over 6 months each (and counting).

I've skied at the Mont Blanc, swam with sharks in the Maldives, dined with millionaires in Lithuania, ocean surfed in Bali, made snow angels in Prague, joined a street protest in Barcelona, got hit on by bi-curious lesbians in Amsterdam, sipped ginger tea in the mountains of Taiwan, and celebrated New Year's with champagne and fireworks at the Eiffel Tower.

To some, this might sound too ridiculous to be true. But the fact of the matter is that this lifestyle can be reasonably attained by most people on an average salary.

You see… most people don't live like this not because they don't have the money (it costs less than one might think), but because they don't have the **time** or **freedom** to

get away from their jobs.

Eventually, as I began to travel more often, people started talking whenever I left the room. “Doesn’t he have to work? Where does he get all the money to travel so much?”

If you asked me what I did for a living I'd be hard pressed for an answer. Usually, I'd mention something about being a Forex trader… but that’s just the surface answer. The truth is that Forex trading is just a vehicle for me to get the lifestyle I want.

The thing is, there are many ways to make money without working at a regular job. But there is nothing that comes close to the **flexibility** offered by Forex trading. Since you're reading this book, I'm assuming you are already somewhat aware of this.

## Make Money Trading: Is it For Real?

“You have such a great life,” a young cousin said to me one day. “How can I learn to make money trading Forex?”

Perhaps unsurprisingly, Forex is one of the most polarising "make money" topics you’ll read about online. You either love it, or think it's all a scam. The thing is, Forex trading tends to get associated with fraud and unrealistic claims… and rightly so.

For every one author who knows what he’s talking about, there are fifty others who in reality can’t trade their way out of a paper bag. And so, sadly, the vast majority of beginners get led down a false path by fancy marketers and so-called “gurus”.

This is a big reason why I wrote this book. I wrote it not just for my cousin, but for well-meaning people like her who want a realistic and sustainable approach to Forex trading.

After all, there are many ways to fail in this business, and only a few paths that lead to sustainable profitability. The key word here being: sustainable.

You see, it’s actually quite easy to make money trading. Even a blindfolded monkey can do that. The challenge is keeping the money you make.

As we go through the chapters of this book, we’ll uncover the real reasons why so many people struggle with trading, and how the retail trading industry encourages that to happen. Believe me, this will surprise you.

By the end of this book, you’ll know why most retail traders have practically no chance of of making money in the long run, and how you can approach your trading to avoid the same fate.

Now, when someone asks me how they should start trading, I don’t have to spend a full afternoon explaining things to them.

This book is my official answer.

# We All Want To Believe

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What if I told you that your biggest obstacle to trading success lies in your perspective?

You might dismiss this entirely. You might say, "No, I just need to find the right system, and I'll be fine."

But you'd be wrong.

As you'll soon come to understand, success at retail trading begins with an accurate perspective on how the game of retail trading is played.

Here's the dream we all want to believe:

Anyone with a laptop and internet connection can follow a trading system and with some practice, start making money. After a few months or years, I'll be able to quit my job and trade full-time from home.

Ahh… if only things were that simple. If they were, we'd have a world full of home-made millionaires.

Since you're reading this, I'm guessing that your experience with trading has so far been less than satisfactory.

With the best intentions, you've attended trading seminars, bought books, video courses, and regularly visit online trading forums.

Despite all this however, nothing you try seems to work. No matter what you do, your trading account continues to bleed out. Something doesn't seem right, but you can't put your finger on exactly what it is.

If this describes you, you're at the right place. Pay close attention… because you're about to learn something that few retail traders will ever come to know.

## How The REAL Game Of Forex Trading Is Played

Forex Dreaming was written to highlight the sneaky tricks and traps of the retail trading industry, and for once, to shed light on the real reasons for the dismal performance of retail traders.

Before you continue, understand this: this isn't a How-To book. It's a How-NOT-To book. Unlike most other books on trading, you won't find any "trading systems" here.

I'm not going to tell you to "buy when the fast moving average crosses the slow moving average", or anything even remotely close to that. All technical indicator based trading methods DON'T work, and in this book you'll find out why.

I'll show to you how the wool has been pulled over your eyes and how you've been trained to do exactly the type of things that keeps you losing.

Specifically, I'll show you how the retail trading industry has been designed to facilitate your failure, and more importantly, how to avoid the pitfalls that the majority of traders don't even know they've fallen into.

## Beyond The Usual Short-Term Tricks

If trading can be likened to building a house, technical indicators are the tools we use… but what I'll be sharing with you here is about the architectural design.

Regardless of the quality of building materials or workmanship, a poorly-designed house will collapse. It's only a matter of time.

The key is to have your house designed with the right foundations to begin with.

If you've been trading for more than 6 months but are still struggling to make consistent profits, it's likely that your problem is not about finding more tools, but finding the right design (plan) to properly use the tools you already possess.

## Trading Principles That Will Never Go Out Of Style

You can walk into a magic shop, buy off-the-shelf tricks and use them to entertain your friends for a few days… but you can only perform those tricks a couple of times before their effect wears off.

This is how most trading "systems" are designed. They're fun to play with for a while, and they might even make you some money at first… but sooner or later the truth about these "systems" is revealed: they are merely one-trick ponies. They don't work in the long run.

The secrets I'll be sharing with you in this is <u>not</u> about getting new tricks… it's about understanding the **foundational principles** of how to keep winning.

## OK, I get your point Chris.<br>But you're kind of… rude?

Why, thank you.

In the years that I've been coaching traders, I found that being "nice" doesn't help.

An army recruit may resent his sergeant for being strict on discipline, but in war, it could very well save his life.

Trading is war, people.

If you want the financial rewards and freedom that comes with this, you'd better be ready to hear some hard truths. I'm not here to make merry.

I'm here to smack you on your helmet, tell you to hold on to your rifle, stay low and don't get shot. Try to be a hero and the market will make an example out of you.

If you can do this, you stand to possibly change your life in ways you can't even imagine right now.

I wrote this book to get people to WAKE UP and get their heads out of the clouds.

Trading is serious business, and unless you have some operative knowledge about how the game is played, you'll always be the guy with the short end of the stick, wondering why your account keeps dwindling.

**You can read more about my views and opinions at my trading blog:**
http://www.pipmavens.net/blog

**I also invite you to download the Retail Forex Manifesto PDF here:**
http://www.pipmavens.net/free

## Get Ready To Open Your Eyes

Forex trading at the retail level is challenging for most people because what it takes to succeed runs counter to popular perception.

In other words, what successful retail trading is really like, will probably be very different from what you think it's like.

The concepts and principles I'm about to share with you were learned the hard way – through many years of research, painful experience, and careful reflection.

After dedicating almost every waking hour to figuring out the game of retail Forex trading, I now present a portion of what I've learned here for your benefit.

Use this knowledge to better your trading and your life.

Let's get started.

# Opportunity vs Strategy

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Let's start by looking at the two most common groups of retail traders. Depending on your experience, you're likely to fall into one of these categories.

**New Traders**

Typically: Look for fast and easy money.

Result: Buys products that promise quick money.

Cause: Misinformed expectations about retail trading.

**Semi-Experienced Traders**

Typically: Works hard, but with weak results

Result: Frustration, jumping from one trading method to the next

Cause: Lack of market and industry knowledge

Now, before we delve into why most trading strategies don't work, the first thing we need to look at is your thinking.

It's pointless to talk about trading methods without first addressing the most important component of trading — your perspective.

See if you can identify with the following symptom:

Symptom: Buying anything that looks like it will make you money, getting no results.

Cause: Opportunistic thinking

Root Problem: Lack of strategy due to misinformed expectations

Now, there are two opposing ways of thinking when it comes to trading at the retail level. There's opportunistic thinking and strategic thinking.

**Opportunistic Thinking:** An opportunity arises and you grab it. You are busy looking for the "best" entry/exit tactics and take action based on what's appealing at the moment.

**Strategic Thinking:** You have a plan to make money in the most probable manner, based on the existing environment, and your strengths and weaknesses.

Opportunity seekers are always looking for their big chance to make lots of money. Their only criteria is, "Can I make money from this?"

So yesterday it was trading robots, today it's Bitcoin trading, tomorrow it's binary options, and two days ago it was some other concept already forgotten.

Opportunity-seekers pick up lots of techniques, use a few, and abandon everything the moment there are a few losses or the next "easy" way to trade comes by. **The only question they ask is, "What's the easiest way for me to make money right now?"**

A strategic trader, on the other hand, thinks differently. He is clear about how much money he wants to make and how to get to that goal. He knows the strengths and weaknesses of retail traders compared to the professionals. He understands how the retail trading industry works and devises (or learns) a trading approach that gives him the best chance of success in that environment.

**The strategic trader knows that the path to success lies in identifying his advantage in the retail trading industry, not the hot new trading system that is promoted this week.**

Here's the thing: The overwhelming majority of retail traders are nothing more than opportunity seekers. They have no strategy for choosing the trading products they buy.

They hop from one method to another, and while they may have some arbitrary income goal they have no idea how to achieve it.

And since they don't have a clear strategy they can't follow any sort of plan to reach that goal… so they end up buying anything and everything that comes with the promise of easy money, with the hope that this is going to be it – this is their chance to make it big.

They especially love (and fall victim to) "automated money" products promising huge rewards with little or no effort.

"If you don't stand for something, you'll fall for anything." - Malcolm X

Forex trading is incredibly lucrative and one can make a lot of money in an embarrassingly short period of time.

However, the capital and skills required to do this consistently takes time and effort to build.

Trading is a lifelong endeavour, so don’t expect to start making money just by attending a course or reading a book.

Overnight success does not exist in this business.

# Your Trading Operation

Next, we'll need to step back and take a look at the business of running a trading operation.

All traders run a trading operation – some just do it better than others. Most are not even aware that they're running one.

The main difference between winning and losing traders is that the winners recognise they are essentially running a business.

**Winners have a plan to make money… what's yours?**

Losing traders treat their trades like lottery tickets: each one having no connection to the others. Trades are taken in isolation, each one serving as a lottery ticket that – hopefully – makes some money. If not, they just keep trying until they get lucky, or wipe out.

Winners, on the other hand, have a **plan**. As retail traders, they know that certain trading styles put them at a natural disadvantage, and so they cleverly avoid those. Each taken trade plays a role in an elaborate strategy that skews the probabilities in their favour.

Winning traders do not know which specific trades will be winners or losers, but they know they are likely to walk away richer than when they started.

"Every battle is won before it is even fought." - Sun Tzu

## Planning To Win

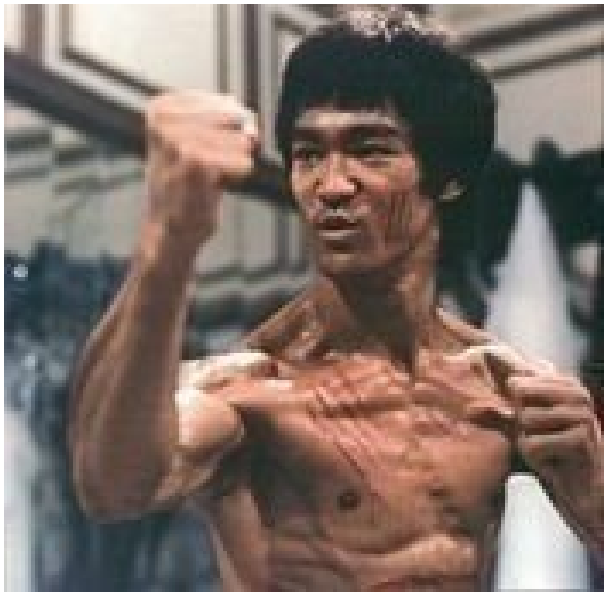
A big reason why wealth eludes so many traders is poor preparation. The path to success begins with the words 'I need a plan'.

But an effective plan is more than a series of steps to follow. How do you know your plan is likely to work?

Even among the minority of retail traders that have a plan, most have no idea how effective it will be.

Let me ask you a question:

Would you bet money on yourself in winning a street fight against Bruce Lee?



Probably not.

You know the moment you step within his reach you're going to get your ass handed to you. It's not a matter of IF you're going to lose; it's a matter of HOW QUICKLY you're going to lose.

In the same way, retail traders pit themselves against the trading equivalent of Bruce Lee every day – they click the buy button thinking they might win in the end, when they never stood a hair of a chance to begin with.

You see… most retail traders have no idea how heavily the odds are stacked against them.

Here's why:

1. Retail traders don't know who they're trading against; and

1. Their plan for success (if they even have one) don't take into account their natural strengths and weaknesses as retail traders.

Now imagine on the other hand, that you're a skillful chess player and you challenge Bruce Lee to a round of chess. Wouldn't you stand a much better chance of winning?

This isn't rocket science, folks.

In short, here's what you need to do:

1. Understand the basic mechanics of retail trading (I'm not talking about technical analysis here), and how the retail trading industry operates

2. Figure out your strengths and weaknesses as a retail trader (compared to professional traders)

3. Devise (or learn) a trading strategy that maximises exposure your strengths while minimising exposure to your weaknesses

4. Devise (or learn) trade entry/exit techniques that compliment your strategy

Most retail traders skip steps 1 – 3 and jump straight to step 4. They focus on the 'hows' of trading, but ignore the 'whys'.

Take this example. In applying a moving average cross-over to identify trade entries, one should ask, "Why would a moving average cross-over work as a trade entry signal?" What are the reasons? Does this method maximise my strengths as a retail trader?




**The difference between surface knowledge and true understanding**

## …is knowing the answer to the “why” question.

The world’s richest investor said it best:

> “Never invest in a business you don’t understand.” - Warren Buffett

# “Make Money Online!”

All right, assuming that you now:

1. Hold the right expectations, and

2. Understand the need to build a trading operation around an effective strategy (that you fully understand)

Let’s talk about what else stands in your way…

Symptom: Hops from trading method to trading method, never really making much money.

Cause: Poor methods methods selected

Root Problem: Lack of market and industry knowledge.

The semi-experienced trader buys books, videos and attends seminars to learn about various trading strategies. More often than not, these so-called “strategies” turn out to be little more than an arbitrary combination of technical indicators.

Now before we continue, I want to state for the record that these methods can all make money for you. All of them.

I say this because you need to understand the subtle truth behind this statement.

There’s a BIG difference between a method that makes money, and a method that makes money over the long run.

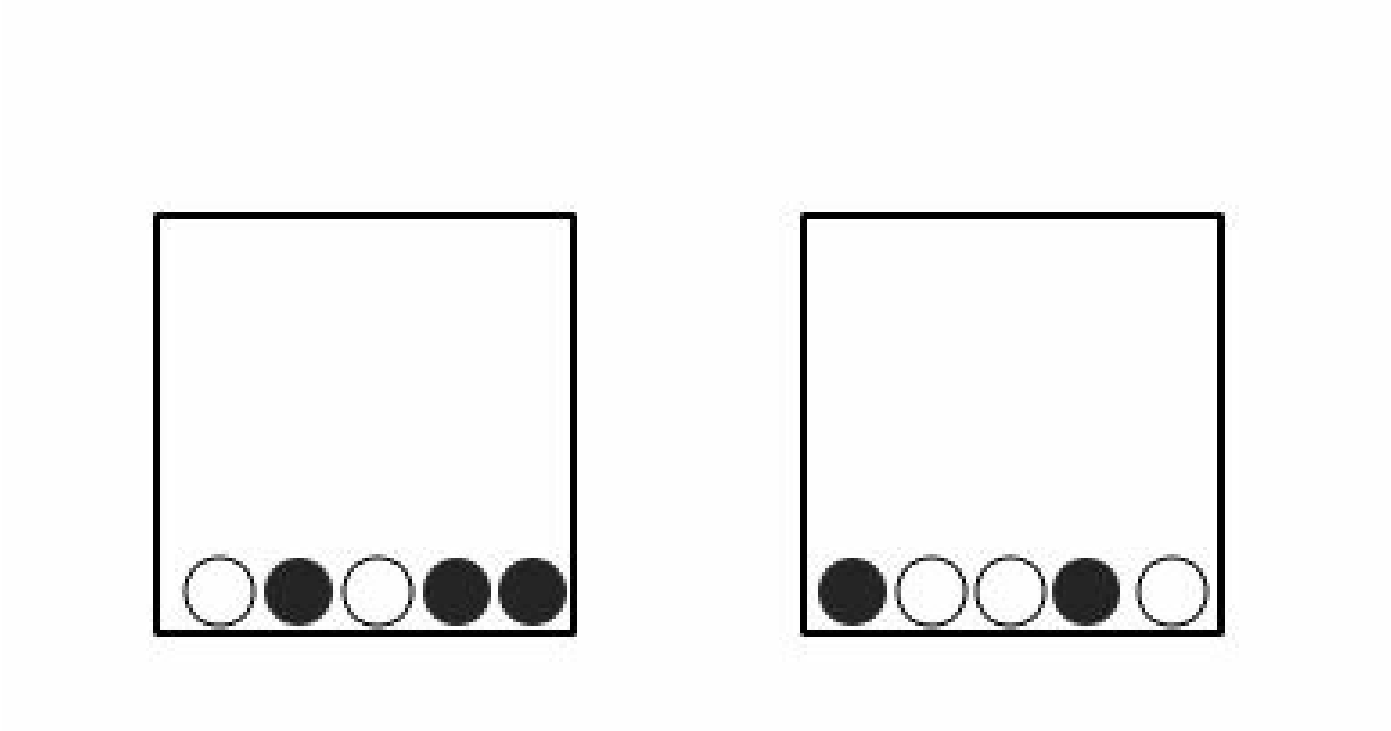
And therein lies one of the keys to understanding why so many trading strategies eventually fail.

Allow me to explain.

# Risky Decisions: Pick From A Box

There are two boxes in front of you, and you can't see into them.

However, you know for a fact that the box on the left has 3 black marbles and 2 white marbles, while the box on the right has 2 black marbles and 3 white marbles.



You must now choose to pick up one marble from one of these boxes, and you can't look into the box as you do so.

If you pick up a white marble, you win $1,000. But if you pick up a black marble, you lose $1,000.

Which box will you choose to pick your marble from?

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Obviously, you'd pick the box on the right. It's simple — you have a better chance of picking a white marble from it.

But here's the thing…

You could still end up picking a black marble, even though you made the right decision to pick from the box on the right.

This small example highlights the dilemma that few retail traders think about:

**You can lose money when trading with a winning system**

And similarly,

**You can make money when trading with a losing system**

Unfortunately, people tend to be much more excited and influenced by what they can see (i.e. the immediate outcome of a trade), compared to what they can't see (i.e. the probability of winning).

This is why some retail traders make money at first, but eventually give it all back to the market, and more. They celebrate the picking of a white marble without realising they are picking from the wrong box.

This brings us to the crux of the issue: you can make money with a losing system simply due to chance, just like how you could randomly pick a white marble from the box on the left.

But as you keep picking marbles from that box, over time you'll be picking up more black marbles and eventually lose money.

The point here is that traders who chase immediate (i.e. short term) profits may be trading with a losing system without realising it.

Over time, when that system starts throwing up more losing trades, the uninformed trader starts to get disillusioned and starts looking for another "better" system, and the cycle repeats until he quits in frustration.

But if that's the case, how can we know whether a trading method makes money over the long run? Do we have to keep testing it over a period of months and years?

Thankfully, the answer is no. There's a way to shortcut the process.

How?

First, you'll have to understand the business of retail trading.

# The Retail Trading Industry

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In case you haven't realised by now, we are in the **business of retail trading**.

And just like how a savvy entrepreneur studies the industry environment before coming up with a business plan, so too must you take a good look at the retail trading industry before you can select the path of least resistance to making money.

Why? Because you don't want to get involved in a business that tries to sell ice to Eskimos. You want to run an easy business, not a tough one. Swim with the current, not against it.

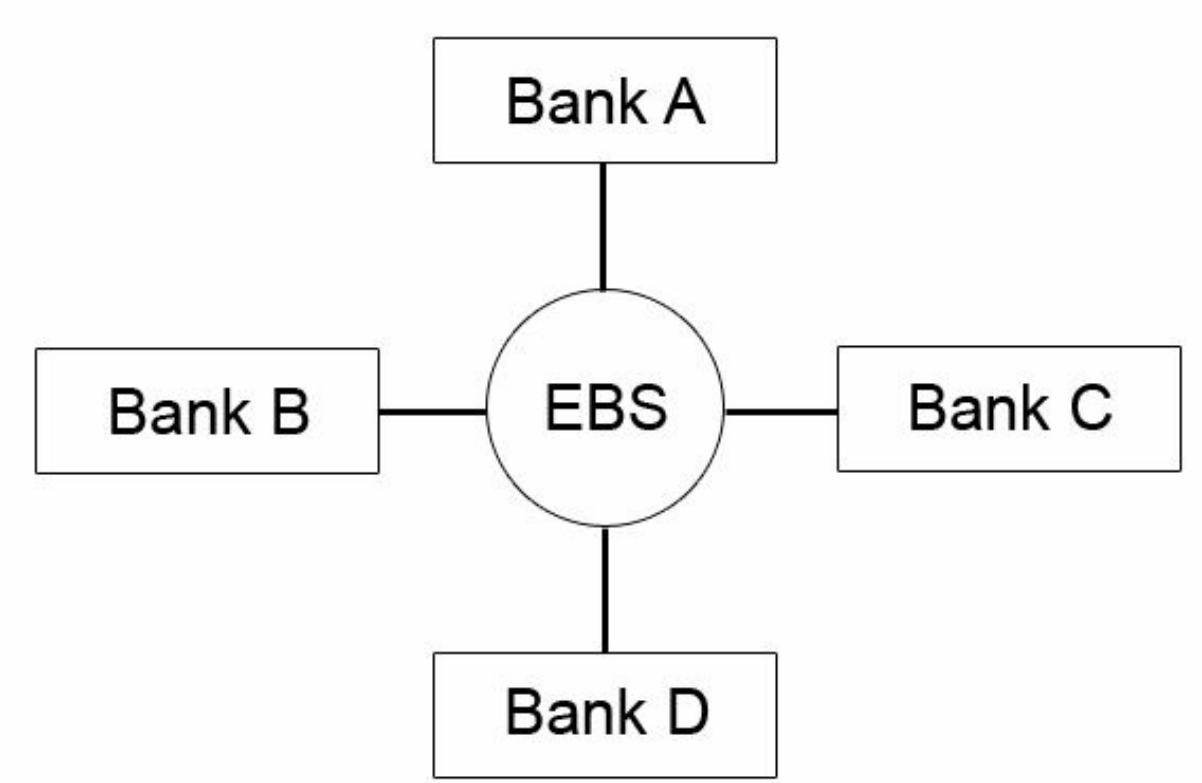
The reality is that most retail traders struggle because their trading method exposes their weaknesses while avoiding their strengths. It's foolish, but the truth is that they just don't know any better.

So the first thing we'll need to do is learn about how the retail trading industry is structured, and the motivations behind its major participants.

# Trading Industry Structure

The first thing you need to understand is that currencies are first traded over a worldwide electronic network known as the **interbank market**.

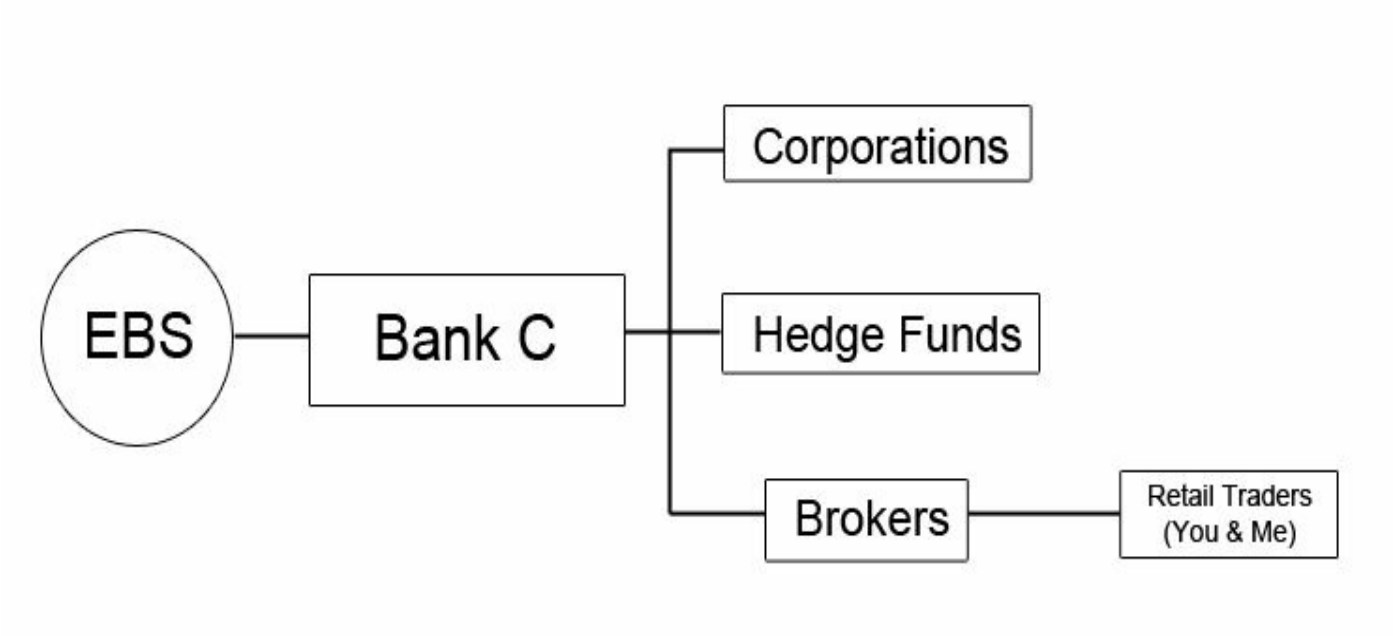
The interbank market is comprised of the largest banks in the world (such as Deutsche Bank, UBS and HSBC), who trade currencies with each other though an Electronic Brokering System (EBS).




These banks will place their buy/sell orders within the EBS, and those orders will be matched by those of another bank.

When there's a match, an exchange of currencies (i.e. a trade) is executed. If the prices cannot be matched, they will be left in a queue until they are matched or the order is withdrawn by the bank.

In turn, these banks provide businesses, financial institutions and retail Forex brokers the volumes of currencies that they need.




Of course, the banks don't provide this service for free. For their trouble, they typically charge their clients (businesses, financial institutions, retail brokers) a fee in the form of a bid-ask spread.

For example, if the interbank price of the EUR/USD is 1.2500, they might quote a price of 1.2501 to a broker. The difference between these two prices is the profit retained by the bank.

In turn, the retail brokers charge retail traders a spread for their services. This is an additional spread that's added **on top** of the price offered by the banks.

To continue with the example, the broker might quote retail traders a price of 1.2502. Here, the difference between the price offered by the banks (1.2501) and the price offered to traders (1.2502) is the profit retained by the broker.

This brings up the first important point of this book:

**Among all participants in the Forex market, retail traders trade at the worst available prices.**

Every time we 'buy', we are buying at a higher price than the banks and hedge funds. And every time we 'sell', we are selling at a lower price.

In other words, we are at the bottom of the trading food chain.

Think about what that means. What's the implication of this, for retail traders like you and me?

Well… for one, it's like stepping into a professional heavyweight boxing ring with our hands tied behind our backs. Before even clicking the 'buy' or 'sell' button, the odds are already stacked against us.

So the first harsh fact you must always remember is that **retail traders start out at**

**a structural disadvantage compared to everyone else in the market.**

The professional bank and hedge fund traders already have access to superior information, technology, manpower and industry expertise. Now add to that the fact that they will always be trading at better prices… how much of a chance do you think we'll have against such competition?

The answer is: very little.

So the first takeaway here is that competing directly against professional traders is, pretty much, trading suicide.

They are placed in such an overwhelmingly superior position that competing against them at their own game is like trying to out-swim a shark in the open ocean.

Sadly, most retail traders are unaware of this simple fact. They think that by reading a few books, attending courses, and regularly visiting online trading forums, they stand a chance of "beating the market". This would be laughable if it wasn't so tragic.

You see… this isn't a case of "the smarter trader wins", or "the quicker trader wins". This is case of "you're a big fish in a small barrel, and they're the ones holding the gun".

## But There's A Way

Thankfully, despite all this, there's still a way for retail traders to thrive in this business.

How?

First of all, notice that I said it's trading suicide to compete against the professionals.

While it's true that retail traders as a group will never beat the professionals at their own game, what we can do instead is to play a different game.

You see, it's true that the professional traders are killers at their jobs… but at the same time, **retail traders are not at a complete disadvantage.**

In fact, retail traders possess certain advantages that allow them to trade in ways that the professionals can't. There are, in fact, other ways of trading that allow retail traders to position themselves outside of the professionals' crosshairs.

So if you're starting to feel discouraged, take heart. By the end of this book, you'll know how to avoid trading at a disadvantaged position, and how to trade in a way that maximises your advantages as a retail trader. We'll talk more about this later.

For now, let's turn our attention to your most important trading partner: your broker.

# The Little-Known Truth About Brokers

Retail trading brokers are often the subject of some of the most emotionally-charged forum discussions you'll see. Some of those comments have legitimate points, but unfortunately many of them get reduced to childish name-calling and finger-pointing.

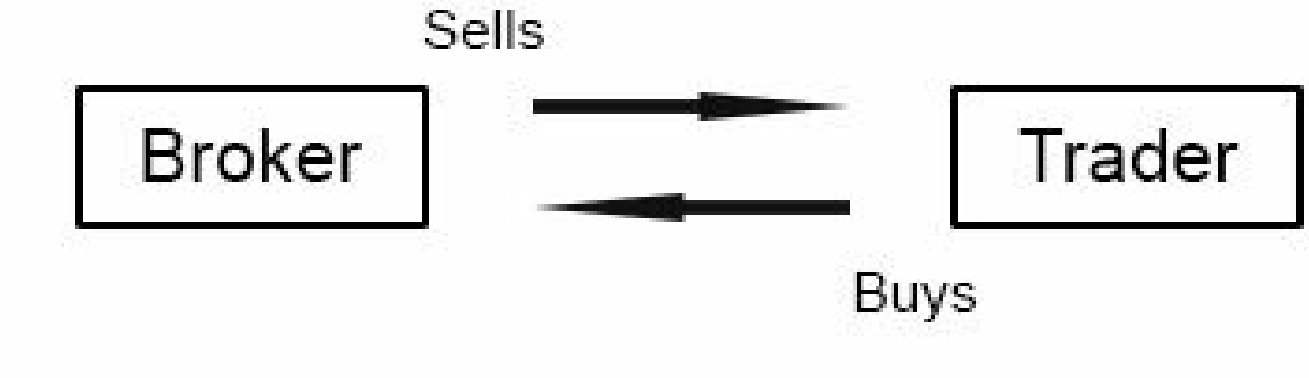
Now, regardless of your personal experience with your trading broker (which can be subjective), there are a few objective facts about their business that are commonly misunderstood.

The first of these facts involves brokers that operate with the dealing desk model.

## Dealing Desk Brokers (Market Makers)

Dealing desk brokers are also called market-makers because their function is to provide a "market" for retail traders. They literally "make" a market for us to trade in.

In other words, when trading with a market maker, the retail trader's trades do not get routed to the interbank market. Instead, those trade orders are absorbed by the market maker itself.




The implication here is that a profit made by the trader is a loss borne by the market maker. Likewise, a loss suffered by the trader is a profit for the market maker.

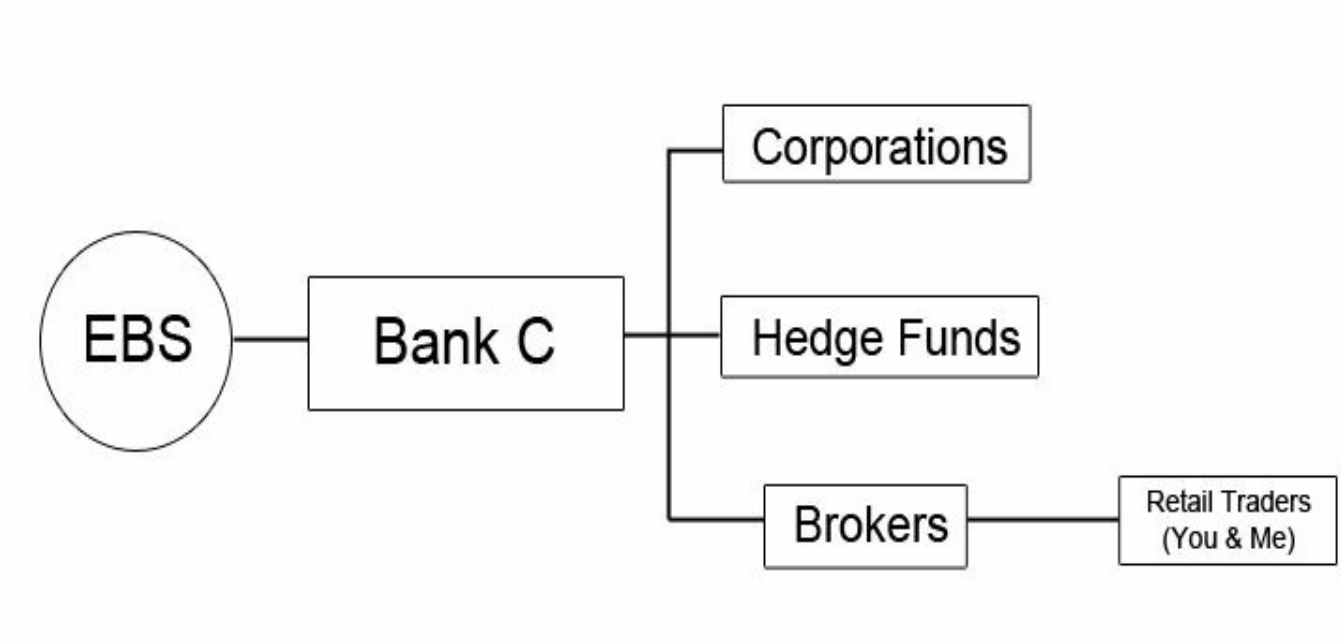
This is why you commonly hear retail traders talk about their stops being "hunted" by brokers. This refers to a situation where the market makers "artificially" spike prices further than that in the interbank market, in order to trigger the traders' stop loss orders that would otherwise not have been triggered.

For example, the market maker's price chart may show a 45-pip price spike, while there is only a 40-pip price spike in the interbank market.

Now, while there may be some truth to this assertion, in reality the situation is typically not as simple some would like to believe.

For one thing, most people forget (or simply don't know) that whenever the market maker absorbs its clients' trade orders, it has to make a similar order with its bank provider.

Recall:

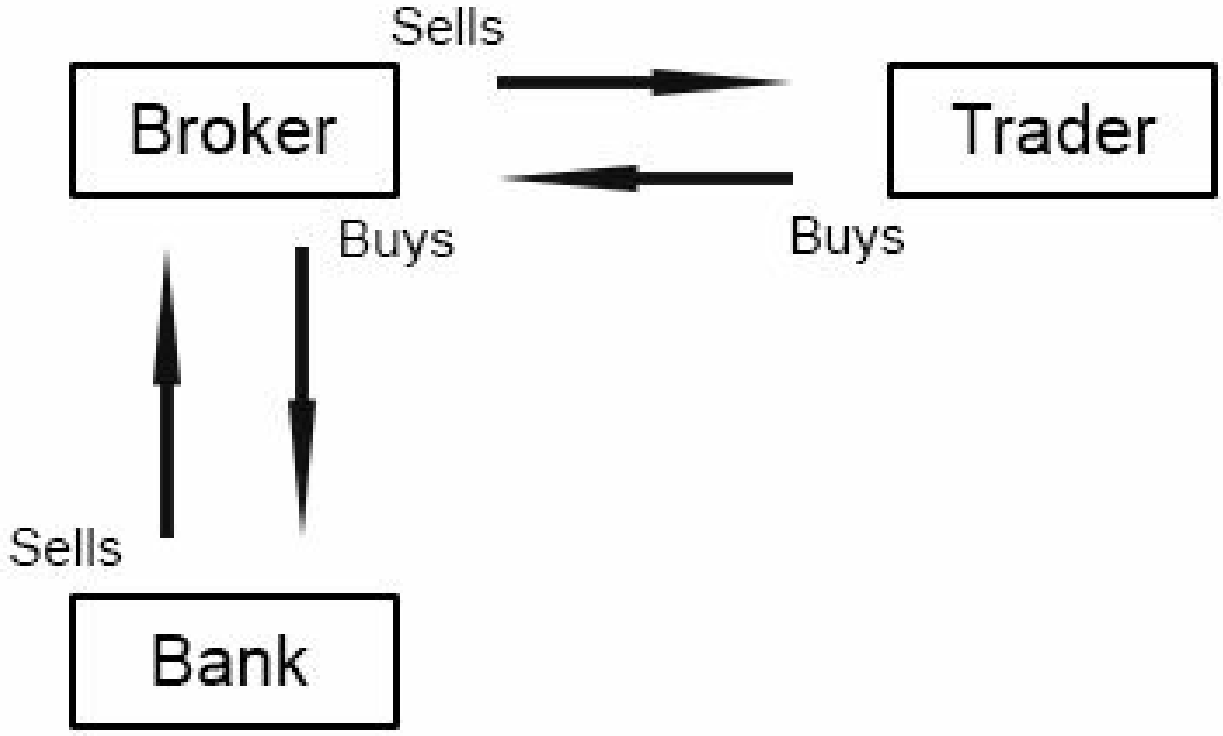



So for example, when a trader enters a 'buy' order, the market maker completes the order by 'selling' to him.

Now, at this point it should be mentioned that as a rule of thumb, brokers do not want to speculate on market prices. Their business model is to make money via the charging of spread fees.

Thus, when retail traders execute a 'buy' order, the broker is exposed to potential losses that would materialise if the market price subsequently moves up.

Faced with such exposure, the broker will typically hedge against potential losses with an equivalent trade with its bank provider.




This way, if the market price moves up, the broker can offset its losses (to the traders who took a 'buy' trade) with the profits made from the 'buy' trade it took with the bank.

In other words, dealing desk brokers act mostly as the middle-man and do not directly profit (or lose) as a result of its clients' trades.

Thus, if the trader (who took a 'buy' order) loses on that trade, it's not a simple case of the market maker making an easy profit, since it had to take a similar 'buy' trade with the bank.

So it's actually not a clear-cut case of "market maker wins when retail traders lose", especially when you consider that the retail traders' aggregate positions are changing all the time.

The market maker thus has to actively manage its exposure to both retail traders' trades, as well as its own trades with the bank. There is significant risk involved here.

And so, stop loss "hunting" tends to not be an approach favoured by market makers. After all, there's a much simpler and far more reliable way for them to make money at the expense of its retail trading clients… This is what they really don't want you to know.

## How Brokers Fleece You Right Under Your Nose

As the saying goes, “if you want to hide something, keep it in plain sight”.

The **bid-ask spread** is something all retail traders know about, yet it is probably the most under-estimated cause of trading losses.

Ask an average retail trader what he thinks about a 2-pip spread, and he’ll probably tell you he doesn’t mind it. After all, 2 pips isn’t a lot of money.

This makes sense, since most retail traders trade with micro or mini lots. A 2-pip spread on a micro lot is a negligible $0.20, while the same on a mini lot is a mere $2.

It is no surprise then, that retail traders don’t think twice about the bid-ask spread. It’s cheap, so why bother about it?

And so, in this way, one of the biggest causes of trading failure has been hidden right under your nose.

If this doesn’t quite make sense to you, don’t worry, it’s not supposed to… not yet anyway.

Allow me to explain further, in the next section.

# The Excitement Of Day Trading

Think back to your early impressions of trading. As a complete beginner, what did you picture trading to be like, in your mind?

If you're like most people, you'd be thinking of something like this:

Fast-moving prices, multiple flashing screens, quick thinking, lightning-fast reflexes, rapid buying and selling.

For many traders, this is what attracted them to this business in the first place. It's all about the fun, excitement, and fast money.

In reality though, successful trading at the retail level bears no resemblance to this.

All the fast-paced action you've come to expect is merely a feel-good illusion perpetuated by Hollywood and TV production houses. And it is this illusion that brokers use to their advantage.

You see, in portraying trading to be an exciting arcade game, they can induce certain behaviours on the part of retail traders that work to their advantage.

In particular, they want traders to trade as often, and as much as possible. Why?

Because they make a lot more money that way. While the retail crowd is busy "playing trader" and furiously clicking away at the 'buy' and 'sell' buttons, they're quietly siphoning away ever increasing amounts of capital.

In this way, **the retail trader's account gets quickly eaten up by the bid-ask spread.**

Allow me to illustrate with an example.

Trader A is a short-term trader looking for trades of 20 pips profit.
Trader B is a medium-term trader looking for trades of 200 pips profit.

| Trader | No. of trades | Profit per trade | Gross Profit | Spread per trade | Total Spread | Net Profit |
|---|---|---|---|---|---|---|
| A | 11 | 20 pips | 220 pips | 2 pips | 22 pips | 198 pips |
| B | 1 | 200 pips | 200 pips | 2 pips | 2 pips | 198 pips |

Trader A pays a 2-pip spread for each of his eleven trades for a total of 22 pips.

Trader B pays a 2-pip spread for his one trade for a total of 2 pips.

Both traders ended up with the same net profit, but with one difference: Trader A paid eleven times more than Trader B in spread fees.

Which trader do you think the broker prefers?

Looking at this from another perspective, consider that Trader A had to make 20 pips MORE than Trader B, just to get the same net profit. If both traders were competing with each other, Trader A would have to perform 10% better than Trader B, just to get even.

Now, which trader would you rather be?

## Your Broker Says "Thank You For Trading"

So why is short-term trading so popular among retail traders?

The first reason is that they don't understand the concepts you've just learned.

The second (and more insidious) reason is that brokers typically promote trading to be a fun and exciting activity. This is why they hold regular "educational" webinars, supply you with multiple analyst reports, and provide you with all kinds of fancy indicators to test and play with.

Think: would a broker prefer a retail trader like me, who makes a 200-pip profit on one trade while paying only 2 pips on the spread, or someone else who makes the same profit trading short-term, after paying eleven times more than I did in spread fees?

It's business, not personal. If I were the broker, I'd do the same thing and promote the hell out of the "benefits" of short-term trading.

As an informed retail trader however, you know that every pip of the spread you pay comes directly from your pocket. And despite your broker's efforts to convince you that they are a trustworthy trading partner, you know that there's a clear conflict of interest. They have strong financial incentives to get you excited about trading because the more you trade, the more money they'll get to take from you.

What people seem to forget is that just as with most other businesses, the goal of the broker is to make as much money as possible. So if you think your broker is looking out for your interests, think again.

Now at this point I should add that it is not my place to judge the morality of the brokerage business — after all, they do provide an essential service for retail traders, and they should charge a price for it.

Besides, the issue of morality is irrelevant.

Let me ask you a question: If you know McDonalds sells unhealthy fast food, what should you do as an individual consumer?

Regardless of what you might think about the morality of selling unhealthy food, the fact is that it's completely legal, and they can — and will — keep doing it. So if you're smart, you'll simply order fewer Big Mac meals.

With a similar perspective, try not to think of retail brokers as "bad guys" per se, but understand that all they're doing is to make as much money as possible, within legal limits. Just as how McDonalds wants you to eat as many microwaved hamburgers as you can, so too do brokers want you to trade often as you can.

And as an informed trader, it's up to you to decide if you want to continue trading the way they want you to.

# A False Trading Education

As a beginner trader, I'd spent over $20,000 on trading seminars, videos, books and courses. On top of that, I would also spend hours each day scouring though a variety of trading websites and discussion forums. Despite all this however, I struggled to turn a profit for years.

However, all that effort did not go to waste. For one thing, I got to examine and test a large variety of trading systems… and I'll save you years of time and effort right now: the vast majority of trading "systems" out there can be summed up by one or more of the following points:

- Buy when technical indicator does A, sell when technical indicator does B
- Buy when you see X chart pattern, sell when you see Y chart pattern
- Buy at support, sell at resistance
- Buy upon break of resistance, sell upon break of support

This is the same mantra that gets repeated ad nauseam by the trading "education" industry.

Pick up any "trading strategy" book or visit any trading website, and you're likely to find some variation of the above four points. I've seen these "strategies" being mindlessly regurgitated for more than 10 years now.

## So… what's the problem?

In a game of poker, the cards in your hand are not the sole determinant of whether you'll win. You'd also have to be able to guess if your opponent is bluffing, and whether you can get away with some bluffing of your own. Ultimately, you'll have to estimate your opponents' cards and intentions.

In other words, the game of poker isn't just about knowing the statistics of the game. It's also (and I would argue, largely) about understanding how the guy sitting across the table from you, thinks.

Now consider that trading is essentially a global game of poker between traders. If you know that the majority of traders are looking to buy the EUR/USD, what should you do? Well, for one thing, you should buy before they do! This way, your trade will be pushed into profit by their buying action.

This, is the nature of trading profits. **You can only make money if you can predict in advance, the actions of other traders.**

Now if you put two and two together, the logical conclusion is that **you don't want to be trading in a predictable way.** Because if you do, it'll be easy for other traders to predict your actions in advance, and make a profit at your expense.

So if you've learned to trade like this:

- Buy when technical indicator does A, sell when technical indicator does B
- Buy when you see X chart pattern, sell when you see Y chart pattern
- Buy at support, sell at resistance
- Buy upon break of resistance, sell upon break of support

… then you might want to re-evaluate your approach. Why? Because this is how most retail traders have learned to trade. It's entirely predictable.

Think about this. If everyone has learned to trade in similar ways, who would they be making money off of? If everyone is "buying at support", who is selling to them?

Even if you don't question the validity of common technical indicators and chart patterns, the fact that the majority of retail traders use them is a big warning sign in itself.

As Warren Buffett said, "If you don't know who the patsy is, you're the patsy."

## "Trade Like The Professionals!"

Short term trading is almost exclusively dominated by professional bank traders. There are good reasons for this, that the average retail trader is largely unaware of.

First of all, by having direct assess to the interbank market they will always trade at better prices than all other market participants. We've talked about this in an earlier chapter.

The second — and more important — reason is that **most of their trades are done on behalf of a corporate client.**

Here's how it works:

Let's say Volkswagen (the German car company) wants to build a new manufacturing plant in the United States.

To do this, the company needs to exchange some amount of Euros for U.S. Dollars, to pay for construction. So the Michael from the finance department at Volkswagen calls up their partner bank — let's say, Deutsche Bank — and tells the Julia, the Forex sales representative: "I need 80 million USD right now. What's the best price you can give

me?"

Currently, the interbank rate of the EUR/USD is 1.2100.

Julia checks with her trader and gets back to Jim: "I can get you 80 million USD at the rate of 1.2102."

"All right, 80 million USD at 1.2102." says Jim.

"Done." replies Janet.

The Forex trader at Deutsche Bank performs the transaction and scalps 2 pips off the $80 million trade, profiting the bank $16,000.

Now, this is a simplistic example but it sufficiently puts the point across. In reality, this is how bank traders make most of their money.

A good 90% (or more) of a professional trader's trades are conducted in this **risk-free** manner. Only about 10% (or less) of their trades are done for speculation purposes.

Now I'll say this again, because it's important that you get this: **the vast majority of a professional trader's trades have no risk of loss.**

Every day, thousands of businesses like Volkswagen are calling up banks for their operational foreign exchange needs, and bank traders are happily scalping their way to a large bonus at the end of the year.

And so, as you can see, professional traders are a completely different animal from us. There's just no practical way we can emulate them, or their results.

So the next time someone claims to be able to teach you how to "trade like the professionals", just smile and walk away. Unless he's going to hire you as a bank trader, he's probably just using some clever marketing jargon that has no meaning in reality.

## The "Trading Education" Game

The ugly truth of the trading "education" industry is that the majority of people who teach and write about trading (especially online) actually have no idea what they're talking about.

As a beginner trader, my suspicions were first aroused when I saw the same few types of trading "strategies" being mentioned everywhere. Moving average lines, Fibonacci, Bollinger bands, MACD… the same few indicators used over and over again.

It occurred to me that that by learning how to trade in the same way as everyone else, I was setting myself up to get slaughtered like everyone else.

I thought, "Could people simply be blindly copying the same trading concepts that are in turn, being mindlessly repeated elsewhere? Could it be a case of 'the blind leading the blind'? Why would trading education websites all post the same types of trading information?"

As they say… when in doubt, follow the money.

Go to any popular trading "education" website or discussion forum and take a look at how the site owner makes money… chances are, that site is being supported by advertisements.

Now take a guess at who those advertisements belong to!

You've guessed it… these advertisements are typically taken up by the brokers who promote trading to be an exciting, fun and profitable activity.

And so, I hope, you are starting to get a clearer picture of how the game is played.

In reality, these websites are not incentivised to provide quality trading information. As with most content-based media, **their goal is to make as much money from advertisements as they can.**

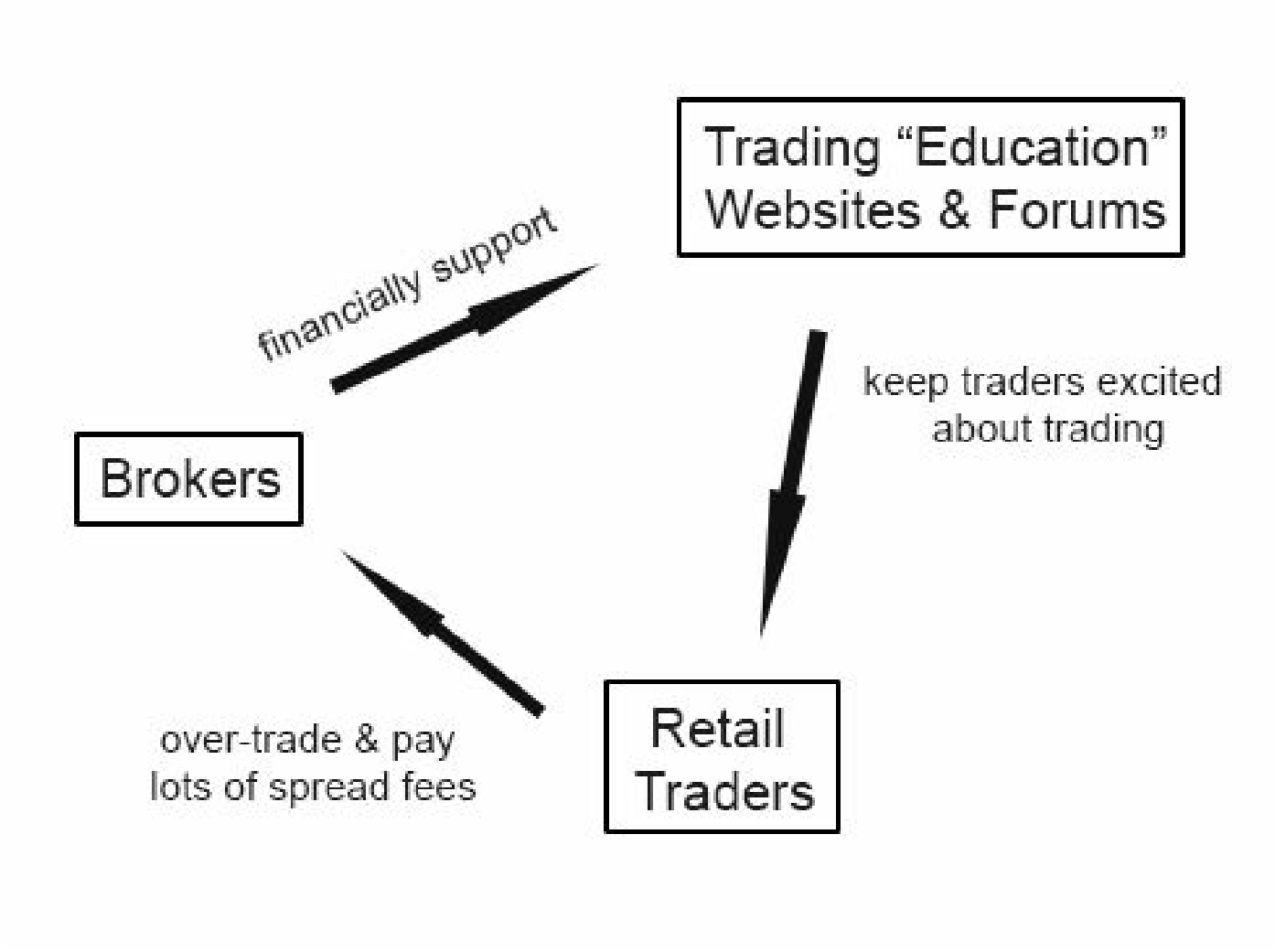
How do they do this? By keeping you excited and distracted with all kinds of hot tips, "strategies", news reports and trading discussions.

Most of the content on these sites are — like the flashing neon lights and scantily-clad girls in Las Vegas — forms of entertainment that are designed to keep you excited about trading. **Their goal is to keep you coming back and spending time on the website, because that's how they get paid.** They don't get paid for helping you trade better.

Now let's get back to the brokers. Why would the brokers (who fund these ads) want you to spend time on those websites? Simple! Because the more obsessed you are over 'the Forex dream', the more often you are likely to trade recklessly, and the more spread fees they can charge you!

Once again, think: Who is more likely to pay more in spread fees? The trader who sticks to a well-thought plan? Or the trader who reads about exciting new strategies every week? Which trader is more likely to over-trade?

We have now come full circle:




In reality, good traders have a plan and stick to it. They are not distracted by the thrill of winning any one trade, or the promise of fun times and quick riches. They know that **excitement isn't profitable.**

Real traders understand how the "trading education" game is played and don't waste time participating in it. They simply get into the market, execute their plan, and get out.

So… if you've been learning to trade from the same sources as everyone else and it isn't working for you, it's time to look for an entirely different approach.

## False Gurus

Besides online forums and trading "education" websites, the 'Guru' business is another popular source of education for retail traders.

However, it's different in one key area: instead of making money off advertisements, the 'Guru' business makes money selling trading courses.

It's called a 'Guru' business because although they technically sell courses, what is really being sold is a charismatic personality who will supposedly teach you his (or her) trading secrets.

Compared to "educational" websites, the 'Guru' business is more likely to be a useful source of trading education because there are financial incentives to produce a high quality trading course.

The problem however, is that **the general retail trading population doesn't demand high quality trading courses.**

You see, every year a significant number of people get into trading with the hopes of making a quick buck. They are mostly opportunity seekers and have no intention of sticking around unless they can start making money right away.

Thus, they tend to focus on (what they perceive to be) the most profitable aspect of trading: trade entries and exits.

The result of this is that they sign up for trading courses focused on exactly that, and the 'Guru' businesses that supply such superficial courses will thrive, while those that don't, either wise up and start selling similar courses, or get left behind.

This becomes a cycle of:

1. Opportunity seekers demand superficial trading courses
2. The 'Guru' business gives them what they want. It comes up with an exciting product launch and gets the audience whipped up into a buying frenzy
3. Wannabe traders buy the "system" in hopes of making fast money
4. The wannabes apply the "system", lose money and get discouraged. Some quit, while others look for a new magic bullet.
5. The same 'Guru' business starts up a new website, sells a new course, and puts a new face on the package. Soon, a new trading course is announced.
6. Opportunity seekers continue to look for superficial trading tactics and buy the new course.

You see, the root of the problem is that most retail traders have no clue about what's required to do well trading at the retail level. In particular, they think that trade entries/exits and money management are the most important aspects. Why?

Because:

1. That's what most people talk about in online forums and "educational" websites; and
2. It's easy, fun and exciting to think about

And so you see, the trading education industry is filled with of conflicts of interests and misleading information put out by devious marketers and regurgitated by clueless parrots.

The worst part is, the average retail trader laps it all up and loves it! It's no wonder most people fail to make money in this business.

# The Technical Indicator Illusion

Ultimately, the 'Guru' business model thrives because opportunity seekers willingly pay good money to continue believing the Forex dream.

I mean, what's a few thousand dollars if, after applying some secret combination of technical indicators you can make $200 per day trading from home?

Most retail traders believe that trading is a puzzle to be solved. They think that once they discover some secret combination of technical indicators (appropriately called the "holy grail"), they can keep making money forever.

Alas, this is why it's called a 'dream'. It has very little to do with reality.

In reality, trading is not a puzzle that can be solved once and for all. It's an ongoing competition.

This is why there will never a fixed way to keep making money in this business — one needs to constantly evolve based on how the competition thinks and acts.

If you'd like to learn more about this topic, I've written more about it here: http://www.pipmavens.com/blog/forex-trading-and-the-theory-of-mind/

The bottom line is that technical indicators are merely derivatives of market prices (i.e. generated from market prices) that **give the illusion of having some sort of predictive capability**.

Believing that technical indicators can predict future prices is like believing that your footprints today can predict the path you'll take tomorrow.

Here's what I mean:

Imagine you are a detective hired to study and interpret John's footprints.

You track his footprints from the time they leave his home and enter a nearby bakery. After making a few rounds in the store, the footprints then make an exit and head towards a nearby park. The footprints end at a bench in the park, under a tree.

From these observations, you may infer that John went to the bakery, got something to eat, and proceeded to have his meal on the park bench.

Now, after studying these footprints, how likely do you think he is to do the same thing again tomorrow?

Clearly, there isn't enough information here to make a reasonable prediction.

It depends on a number of other factors, such as whether it's a regular weekday (his

usual routine perhaps?), the time of day the footprints were made (lunch time?), or even his mood (was he upset?).

Understanding some of these external factors can give you a much better idea of the likelihood of a similar footprint path tomorrow.

The thing is, amateurs tend to focus only on the "footprints" (i.e. technical indicators), while ignoring the external factors (i.e. economic fundamentals). They think that by simply studying price movements in the past, they can predict price movements in the future.

And why do they think this? Because firstly, that's how they've been taught to trade by the trading "education" industry, and secondly, because indicators provide a sense of comfort to their users.

After all, technical indicators can be easily quantified and manipulated. Most people know how to calculate a 5-day moving average, and how to change the colour and thickness of the moving average line.

When it comes to technical indicators, retail traders are in full control.

Compare this to market prices, which tend to fluctuate unpredictably and erratically, especially in the short term. Traders have absolutely no control over it. For most people, trading on short term price action alone is an anxiety-filled experience.

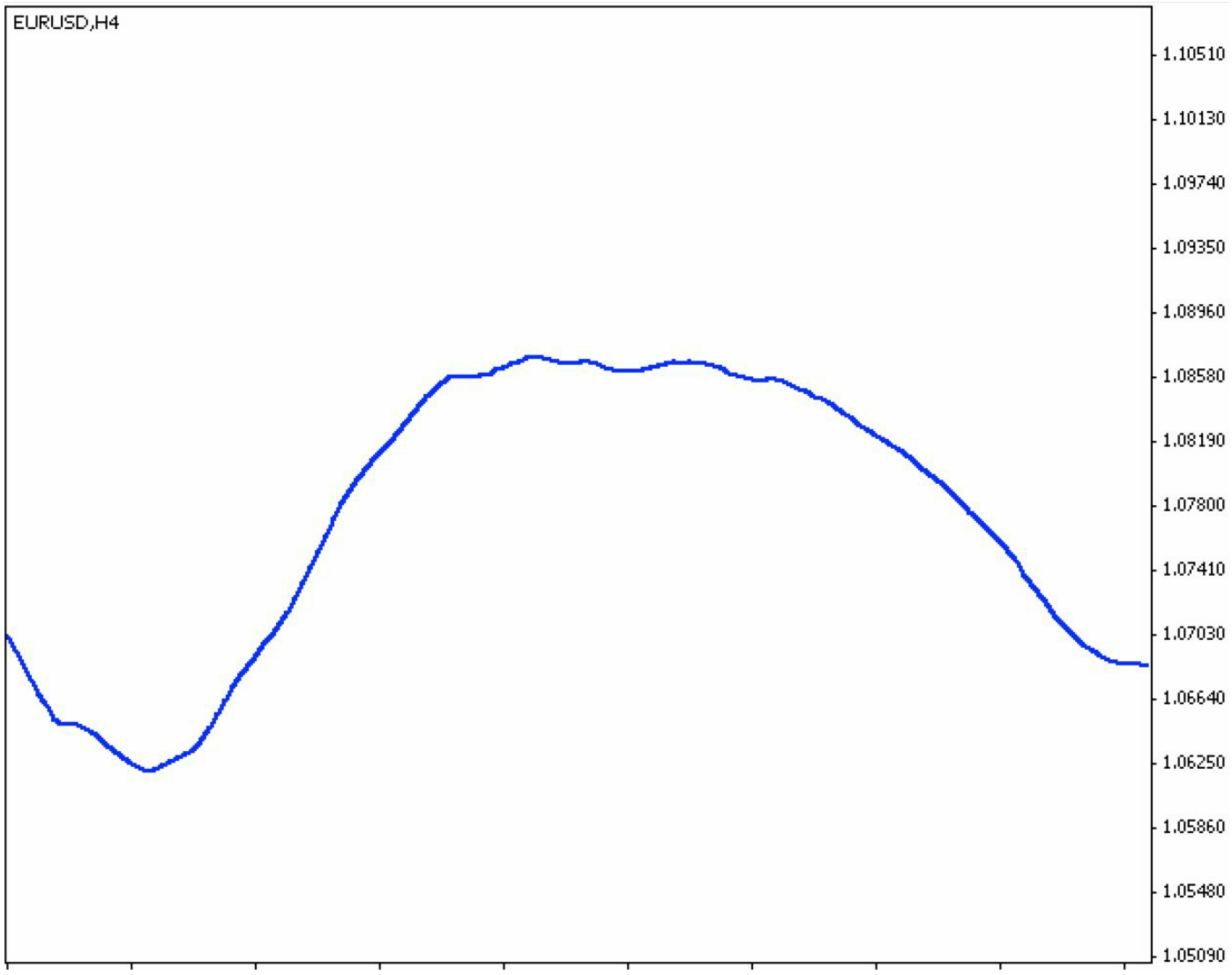
Technical indicators, on the other hand, move relatively slowly and predictably because they are an aggregate (i.e. a summary) of market prices.

To illustrate my point, below are 2 representations of the same chart. The first is a bare candlestick chart that tracks actual market prices. The second chart shows only the moving average indicator.

**Candlestick Chart**




**Same chart with moving average only**




Can you see how the indicator (in this case, the moving average line) soothes the trading experience? It is thus of no wonder that retail traders have come to rely heavily on technical indicators.

Now… looking at a smoother version of market prices, on its own, is not a problem. The problem arises when traders begin to trade off technical indicators as though they are the market. That's the illusion that retail traders unknowingly fall for.

How do you know if you've fallen for the technical indicator illusion? Well, if you can blank out the candlesticks (or bars) on your chart and still be able to trade, you've fallen for the illusion.

Or, if after removing all the technical indicators from your chart, you are unable to trade, you've fallen for the illusion as well.

By now, you can probably tell that I'm not a big fan of technical indicators. But please understand that I am not against them either (I use a few of them myself).

As with any tool, technical indicators can be useful. But you want to make sure that

your trading decisions are not solely determined by them. Because if they are, you are essentially handing over control of your money to a non-thinking, arbitrary set of rules.

## 'Convenient' Does Not Mean 'Effective'

So why do the majority of retail traders still focus so much on technical analysis (TA)? Again, it boils down to incentives.

Firstly, opportunity seekers tend to favour quick-fix answers. They want to be told when to click the 'buy' button, and TA provides a convenient answer.

For example, "buy when the fast moving average line crosses the slow moving average line" is a convenient answer. Unfortunately, it's often not a profitable one.

Economic fundamentals on the other hand, do not provide clear-cut solutions. If inflation in the U.S. Is expected to remain low, for example, should you 'buy' or 'sell' the USD? And when should you do it? There is no definite answer. It depends on a number of other factors.

You see… in reality, market prices move across a range of probabilities. They don't move according to clearly defined factors. This is a problem for opportunity seekers because it's not immediately obvious how they can make money in such an environment. They want to simply "do step 1, step 2, step 3", and then make money at the end of it. TA fits nicely into the type of quick-fix answer they're looking for.

The second reason why TA is so popular is because although many beginner traders think they're trading for the money, they are in reality just trading for the thrill of it. This is not unlike the gambler who believes he's gambling for money, when he is in fact addicted to the feelings of anticipation and excitement that comes with each roll of the dice.

This is a big reason why new traders tend to focus on short term trading — they like the emotional ups and downs that accompany each dip and rally of short-term price fluctuations. As the saying goes, "trading is the most exciting thing you can do with your clothes on".

Now what about trading "educators"? Why do they focus on technical analysis?

The first reason is because it's easy to teach. It's a lot easier to say, "buy when the blue line crosses the red line", than to discuss the implications of a declining GDP growth rate. A seminar speaker can teach TA to a group of people in a single weekend, but he can't do the same teaching economic fundamentals. That can take weeks, or even months.

The second reason is related to the first. Since it's a lot easier to teach TA, the "educators" have found that they can take in many more students simply by focusing on it. Why teach one group of students about economic fundamentals over the course of a month, when you can teach four times as many students over the same period, just by

teaching TA?

Besides, most beginner traders are looking for quick-fix, easy answers anyway… so why not give them what they want, and make a lot more money doing it?

And, with so many technical indicators so choose from, there are practically no limits to the number of TA-based trading "systems" that can be created and sold.

So today it's moving averages + MACD. Last month it was Fibonacci + RSI. And the month before, it was pivot points + Bollinger bands. With so many new and exciting trading "systems" to trade with, opportunity seekers have a great time "testing" and playing around with each new system sold by savvy marketers.

So although it seems like the trading education industry is about teaching people how to trade, in reality it is mostly about keeping them distracted and entertained.

This is why, in my opinion, the trading education industry is largely broken. The majority of retail traders don't know what's good for them, and the "educators" that thrive are the ones that are more than happy to sell them what they want. The incentives do not favour those who truly want to be successful at trading.

The sad fact is that the true educators of trading don't stand a chance against those who sell dreams and tactics. People want to be told that it's easy to make money trading, and that they can learn how to do it by spending a weekend at a seminar for a mere $3,000.

Tell them that learning to trade can take months of learning and years of practice, and you'll probably have just a handful of people who would be willing join your course.

In reality, financial markets are complex systems that move based on economic fundamentals and human psychology, not an arbitrary set of lines on a trading chart.

But the dream of making money from home, simply by following a few technical indicators is a proposition too good to give up, especially when being repeatedly told that it can be done.

# The Truth About Price Patterns

In the past decade, I've observed one aspect of the market that has never changed.

This single observation is what took me from being a struggling trader, to one that has not only survived, but thrived in this high-attrition business.

Among all the retail traders I've met over the years, only those who understand this are still trading today. The rest have either blown up their accounts, or have quit in frustration.

So… what is this observation? What's it all about?

In one sentence, this is what I've come to realise:

**The market price rarely moves in predictable patterns.**

Wait… is that it?

Well, yes… but let me explain further.

## Reflexivity

At its core, trading is a competition among people…and the thing about people is that they are able to anticipate and adapt to changing circumstances.

This, together with a special characteristic of financial markets, whereby the observers are often also the participants, results in the following feedback loop:

1. Traders buy and sell, which moves the market price
2. The new price changes traders' view of the market
3. With a new view, traders buy and sell, which further moves the market price

This action-reaction feedback loop is what billionaire trader George Soros calls Reflexivity.

Here's an example of Reflexivity in action, on a smaller scale:

Imagine that every evening you play a game of chess with a friend. Over the first few days, your friend keeps winning… but you soon notice that in every game, his first 4 moves are always the same.

So you study these 4 moves closely and soon figure out its weakness. In the next round, your opponent begins to make the same 4 moves… but since you've anticipated this, you easily break his setup and go on to win the game.

After losing the game, your opponent realises that you've seen through his strategy, and comes up with a new (different) one to counter yours.

The game of trading works in a similar way. When a price pattern becomes obvious, traders quickly change their behaviour, which breaks the current pattern and forms a new one.

**This is why fixed (i.e. technical indicator based) trading systems can never work in the long run.** The moment they start making consistent profits, the manual traders will either start front-running the pattern or change their behaviour in ways that counter the continuation of the pattern.

The takeaway here is that **the market will rarely move in predictable patterns for long.** The one thing you can always count on the market to do, is to change.

By simply understanding this, you are light years ahead of the majority of retail traders who are still rummaging around for the "secret" combination of technical indicators that will "unlock" the riches of the market.

## The Guru Circle Jerk-off

The reason I know all of this is because on a number of occasions, I've been invited to join some of the most influential "Guru" business circles on the internet. In these circles, the idea is to promote the trading course of a well-known "Guru" to my subscribers, so that he'll promote my course to his subscribers later on.

These courses are typically well marketed and have fancy names and come in fancy packages. The content however, is typically a load of crap. This is why they keep coming up with new courses, packaged under new names. The previous ones simply don't work. But crap nicely wrapped with a ribbon on top, is still crap.

I've written more about this on my blog:
http://www.pipmavens.com/blog/forex-products-why-i-said-no-to-more-money/

In the end, I rejected those invitations because didn't want to participate in the mass spreading of poor trading education that will end up harming people. It's just bad karma.

Besides, I don't want to have to keep coming up with a new trading course every 3

months. I've got better things to do with my time… like, oh I don't know, trading!

And, guess what? I actually care about the type of trading education products I produce. I trade my own money with exactly the same methods I teach in my trading course. I actually eat my own cooking. What a novel concept!

The bottom line is, you should be sceptical of people who claim to help you make money quickly and easily. Nothing worth doing, especially if it involves making money, will be easy.

# Retail Trading Industry Master Plan

By now, you might feel like throwing up.

If so… good! It means that you are ready to look past all the fancy marketing and start getting a REAL trading education.

So far, we've established that:

- The majority of retail traders are opportunity seekers, and
- They tend to focus on short term trading because
  - They want to make fast money, and
  - Trading educators tend to sell technical-analysis-based courses that fit that narrative

Also,

- Retail brokers have a strong financial incentive to encourage short term trading, because they can charge more (fees) that way

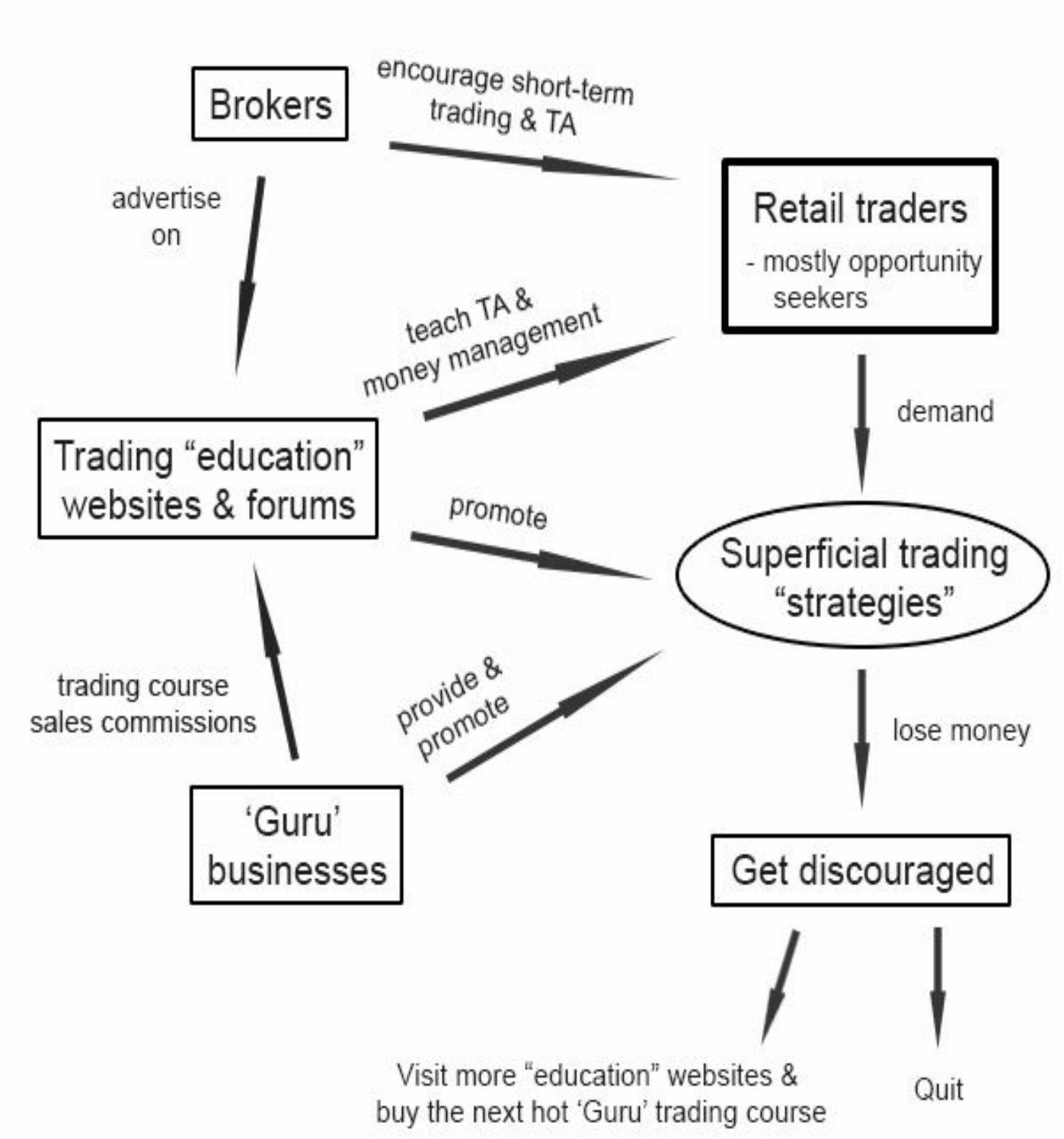
A result of these factors is that

- Most retail traders think that short term trading, technical analysis and money management constitute a trading strategy

And after losing enough money,

- They search for another trading "strategy" or buy yet another trading course that created by the same people (but under a different package, name, and face)

This cycle repeats until they blow up their trading accounts, give up, or both.




The sad reality of the retail trading industry is that **the people who claim to want to help us, have a much stronger incentive to look after their own interests first… which usually comes at our expense.**

So… what should we, as informed traders, do?

We'll talk about that in the next chapter.

# How Not To Be A Sucker

———— ~ ————

So… now that you understand what goes on behind-the-curtains of the retail trading industry, the question to ask is: “what should I do?”

Firstly, you need to figure out the things you need to STOP doing.

Stop looking for more "trading systems". Stop reading the same "trading strategy" books as everyone else. Stop frequenting online forums. Stop following the same trading advice that everyone is trying to follow.

## Stop Looking For More Of The Same

The first order of business is to stop looking for more of the same. Stop accepting everything you read as truth, and start **thinking for yourself**. Just because something is being repeated everywhere, doesn’t mean it’s true.

For example, you've probably heard of the phrase "cut your losses and let your profits run". At first glance, this phrase seems to make sense. But upon closer examination, this is terrible advice. I explain why here: http://www.pipmavens.com/blog/why-you-shouldnt-cut-losses-let-profits-run/

The bottom line is that you should never accept what anyone says about trading without first verifying it yourself. In other words, don't expect to start making money simply by following instructions or a set of technical indicators.

And be especially wary of people who tell you "follow this system (indicator, technique, etc) and you'll make money". A true educator will never tell you to do anything without first explaining the philosophy behind it (i.e. why it works).

## Don’t Use Software You Don’t Understand

For a number of years, the retail Forex industry was filled with internet marketers that sold trading robots (called ‘expert advisors’) that promised automatic trading profits.

In essence, they were selling the prospect of a free lunch: just pay $97 (or whatever price) and the robot will make money for you automatically. Of course, these weren’t their exact words in the sales copy — they used fancy words, pictures and videos — but this was basically what they were promising.

Unsurprisingly, opportunity seekers snapped up those robots like hotcakes.

And of course, the people who ultimately walked away richer from this transaction

were the robot sellers, and a few people who got lucky.

You see, the problem with trading robots isn't that they might stop working… it's that they most certainly will. If someone tells you the market can be predicted by a hard-coded piece of software, they must either think you're incredibly naive, or have practically no experience as traders themselves.

Now… it's not that I think it's impossible for some financial whiz to come up with software that can make consistent profits… but if such a thing exists, it certainly won't be sold openly on the internet for a few thousand bucks a pop.

That aside, the fundamental issue here is that **you should not be using software that you don't fully understand**, and to allow it to make trading decisions on your behalf.

You should never (and I mean NEVER) trust a piece of software with control over your trading capital, unless you fully understand how it works.

## Stop Jumping From Fad To Fad

After trading robots began to fall out of favour, the next big thing soon came along: Bitcoin trading.

Once again, the opportunity seekers began flocking to Bitcoin trading webinars and buying Bitcoin trading software. "This time it's different" they'd say, "Bitcoin trading is not like trading with expert advisors. It's a whole different thing."

Well… technically, they're right. Expert advisors have little to do with Bitcoin trading.

But here's the thing… just like how most opportunity seekers didn't understand how those expert advisors worked, few bothered to study what Bitcoins are about, and simply bought into the story after reading a sales page of the product and watching a few videos of someone making money with it.

I've seen this happen time and time again. Once people start to realise that the "golden ticket" they've bought is nothing but a dream, they abandon it the moment a new fad comes along, and they rush into the exciting new offer.

What the opportunity seekers don't know is that there's an entire online industry that caters to their hope of making a lot of money with little effort. Every few months, a new "make money" product is launched and promoted, usually by the same big wig "Gurus" in the industry.

But, as most opportunity seekers are new to the industry, they only see things from a linear perspective. They see a product launch and think they are lucky to have "stumbled" onto this new amazing opportunity.

What they don't see, is that this product launch is just one of the dozens that the big wig marketers have planned to be launched over the coming year or two.

So the reality is that there is no "wildly profitable" trading system that you have to buy "before the price goes up". Just wait a few weeks or months and another one will come right up to ask for your money.

It's sad, but it's the reality of the situation.

Now… with all this in mind, what can a sincere beginner trader do?

I'm glad you asked.

## A Legitimate Trading Education

Firstly, if you haven't already, you should decide on a trading instrument and style that suits your schedule and temperament, and STICK with it.

If it's Bitcoin trading, STICK with it. If it's binary option trading, STICK with it. If it's spot Forex trading, STICK with it. The only way you'll get better in trading is to keep practising at ONE THING until you get good at it. You won't get anywhere by jumping from one fad to another.

Secondly, COMMIT to your trading education. If you want to be a trader, you'll need to develop real trading skills. Even with a legitimate trading education, you'll most likely be trading for at least 6 months before you start getting a hang of things.

Lastly, you'll have to be careful with where you get your trading education and information from. As discussed in this book, most of the information online is produced by people with strong incentives to keep you from succeeding.

Here are some hints to help you tell if someone is likely to be selling a poor trading education:

- **Regularly releases new trading courses**

If someone is selling more than 3 trading courses and regularly launches new ones, chances are that they aren't truly effective.

A legitimate trading course will always have an operating philosophy (i.e. an explanation of how trading profits are made) and people who sell more than 2 or 3 of those are likely to have conflicts in those philosophies. This is a strong indication that they either don't have a well-thought-out philosophy for each course, or that they don't believe in them. Either way, you'll want to avoid these.

- **Does not show live trades**

It's relatively easy to come up with a trading book or course if you don't have to prove its validity under real market conditions. Anyone can throw in a random mix of technical indicators and call it a "strategy" (and they often do, especially in trading forums).

This is why I recommend only learning from educators that provide some sort of ongoing live demonstration or trading signals that reveal the effectiveness of their methods in real time.

This is what I personally do for my trading course members at this website: http://www.pipmavensinnercircle.com (this is invitation-only)

- **Does not have a long-standing online presence**

Online, it is easy to pretend to be a successful trader simply by spouting the same nonsense that everyone reads about in trading "education" websites.

By doing this, a non-successful trader (or "Guru" business) can sell a trading course every 3 months by coming up with a disposable personality as the figurehead of each course.

Once the hype (and sales) of the course dies down, they can set it aside and come up with another disposable personality figure to sell a new course.

Thus, a good way to filter out such fly-by-night operations is to see if they have a long-standing online presence, or if they have at least been running a real trading blog for over a year.

This is not something the false educators can easily replicate, since their business model requires them to sell a new trading course under a new 'Guru' personality every few months.

So if you see a trading course being released by a 'Guru' you've never heard of before and who does not have any prior online presence, be extra wary.

# Stop Dreaming, Start Winning

———— ~ ————

By now, it should be clear that the retail trading industry has been designed to steer you towards:

- Believing the 'Forex dream'
- Adopting an opportunistic (rather than strategic) mindset
- Getting excited about short-term trading, and focusing on it
- Focusing on technical analysis
- Following instructions (and not questioning why)
- Buying a new trading product/course every few months

Ultimately, brokers and trading educators encourage these behaviours because that's how they make the most money out of you.

And the problem, is that these behaviours work to your disadvantage because they expose your weaknesses while avoiding your strengths as a retail trader.

After all, retail traders:

- Are the last in line to receive price data from the interbank market
- Trade at the worst available prices
- Pay the largest bid-ask spreads (i.e. pay the largest trading fees)
- Have access to the least sophisticated tools and technologies
- Can rely only on themselves

On the other hand, professional (bank) traders:

- Are the first in line to receive price data from the interbank market
- Pay very little spread fees (or none at all)
- Get to trade risk-free in the short term
- Have access to the most sophisticated tools and technologies
- Have access to teams of professional analysts and economists

Now, if you think all this is bad enough… I'm sorry, but there's more.

## Fighting The Professionals For Scraps

As large as the currency market is, there's a limited amount of profits to be made each day – a quick look at any of the major currency pairs will show that few will move more than 150 pips (net) per day. Intra-day retail traders who try to open and close trades within the same day are thus effectively trying to get their hands on a portion of a limited number of pips.

When trading in the short term, retail traders are effectively fighting against the professionals for the limited scraps of "meat" in the market. And more often than not, it's the former will end up as part of the scraps.

Compare this to the medium-term trader who trades over a period of days or weeks – suddenly, there's a lot more meat to go around.

## Re-Quotes & Slippage

If you've ever tried opening or closing a trade as the market price was moving (as is typically done in short-term trading), chances are that your order did not get executed immediately, or you suffered some slippage.

Notice that both are factors you cannot control… so think about this: **If these are factors you cannot control, is it a good idea to have your trading business be especially vulnerable to them?**

With a medium-term target of 200 pips, a slippage of 2 pips is a mere 1% cost.
With a short-term profit target of 20 pips however, a slippage of 2 pips is an additional 10% cost to your bottom line.

Repeat this over hundreds (or even thousands) of trades… and this seemingly small expense quickly begins to add up.

Think about which approach makes it easier for you to be richer after a year of trading:

| | **Short-Term Trading** | **Medium-Term Trading** |
|---|---|---|
| **Effort required / Intensity** | High | Low |
| **Profit per trade** | Less | More |
| **Total (spread) fees paid** | More | Less |
| **Risk of slippage** | Higher | Lower |
| **Impact of slippage** | High | Low |
| **Competes against** | | |

| | | |
|---|---|---|
| **professionals** | Yes | Limited |

Which looks like a better way to be trading?

The answer is obvious. Yet so many new traders come into the market looking for the thrill of fast money that they don't stop and think about whether short-term trading plays to their advantage.

The only "downside" of medium-term trading is that it does not give the adrenaline rush that short-term trading does.

So ask yourself: are you trading for the thrill? Or to make money?

… because you can't do both at the same time.

## Medium-Term Trading

By trading over the medium-term, the smart retail trader lifts himself out of the disadvantageous situation that most of his peers are in.

He not only avoids competing with professional traders, but also sets himself up for having easier time accomplishing his profit goals.

Here's what I mean:

Imagine you run a bakery that makes and sells (super delicious) bread.

Each loaf costs you $0.50 to bake (an expense).

You now have to decide how much to sell each loaf of bread.

Should you set the sale price at $1 or $2? (Ignoring all other factors)

Which price point would you choose? The answer is pretty obvious…

Most people would choose $2, since that leads to more income and profits.

From an operational perspective however, there's another reason why $2 is a better choice…

Let me explain by posing a slightly different question:

In the same bakery example, how many loaves of bread would you need to sell, to make a profit of $300?

If your sale price was **$1**, you'd have to sell **600** loaves to make a $300 profit.
If your sale price was **$2**, you'd have to sell **200** loaves to make a $300 profit.

Take a close look at the numbers…

By simply **doubling** your income, you'll reach your profit goal in **one-third** the number of transactions (not half!)

This little-understood concept has significant implications when it comes to trading.

If you have an income goal of $80,000 per year, which would be the easier path to get there: being right on 150 small trades, or 30 medium-sized trades? Is it easier to be right 150 times, or 30 times?

**This is a big reason why short-term traders struggle to reach their income goals – they have to be 'right' a more often while competing against the professionals, compared to medium-term traders who only have to be right a fraction of the time, while staying out of the professionals' crosshairs.**

Once again, let's take a look at the details a short-term trader (Trader A) versus a medium-term trader (Trader B) who both end up with the same net profit:

| Trader | No. of trades | Profit per trade | Gross Profit | Spread per trade | Total Spread | Net Profit |
|---|---|---|---|---|---|---|
| A | 11 | 20 pips | 220 pips | 2 pips | 22 pips | 198 pips |
| B | 1 | 200 pips | 200 pips | 2 pips | 2 pips | 198 pips |

To summarise, the medium-term trader (Trader B) enjoys:

- Taking fewer trades…
- More profit per trade…
- Having to spend less screen time…

- Paying less brokerage fees…
- Not competing against the professionals…
- Having less pressure to perform…

… all while getting the same net profit as the short-term (Trader A).

As you can see, it's a LOT more difficult for short-term traders to outperform medium-term traders.

I hope something just clicked in your head. This is what I mean by choosing an **easier** path to achieving the results you want.

But of course, if you're the type of person who craves a tough challenge then perhaps short-term trading is for you. Personally though, I'd prefer to run an easier and more relaxed trading operation.

So… what's considered to be the medium-term timeframe? For most purposes, this refers to the **4-hour chart** and **daily chart**.

Trade on the smaller time frames (such as the 15-min or 5-min charts), and you're setting yourself up to swim against the current.

Remember, it's all about choosing the path of least resistance to making profits.

## Change Is Uncomfortable

Most people have a natural tendency to resist change. So despite the facts I've laid out, I'd expect a majority of the people reading this book to continue short-term trading. For these people, there is little else I can do.

But for those of you who are starting to see past the clever tricks and illusions perpetuated by the retail trading industry, here's good news: you don't have to trade the way they want you to.

You can choose a hunting ground where you have the winning advantage.

## "But my account is too small!"

At this point, you may be thinking, "that sounds great and all, but I can't trade over the medium term because I'd need a large trading account for that".

Well, here's the thing: although there is a minimum capital requirement to trade in the medium-term, it's probably a lot less than you might think.

I've written a short and concise article about this here:

http://www.pipmavens.com/blog/medium-term-trading-requires-deep-pockets-get-educated/

The bottom line is that you can be a medium-term trader even with under $1,000 in your account… so "not having large account" is, for most people reading this book, not a problem at all.

## Economic Fundamentals

Now, if you're looking to trade in the medium-term, you'll need a basic understanding of international economics. This is often referred to as economic fundamentals.

If you're completely new to this topic, just go to any library, pick up an 'International Economics' textbook, and read the sections on:

- Gross Domestic Product (GDP)
- Monetary policy
- Inflation
- International trade
- Currency exchange

Alternatively, you can read about these topics on Wikipedia. You just need to know what these terms refer to, how they work (in theory), and how they affect one another.

Now don't let these terms intimidate you. Academics like to use fancy terms with even the simplest of concepts, so just take the time to read about them and you'll get a grasp of things quickly.

Once you have a basic understanding of these topics, start looking at the GDP, interest rate, and employment trends in the United States and Eurozone. You can get the those figures from this website: http://www.tradingeconomics.com

Now, looking at the EUR/USD (daily) price chart, try to relate any price trends you see with what you've learned about the economic trends in the U.S. and Eurozone. Things might not entirely make sense the first time you try this, but it's a start. And the most important thing is to get started.

Over time, as you continuously relate price movements to ongoing economic trends, you'll soon begin to piece together the current themes that drive the market.

It goes without saying, that this means you'll have to spend some time thinking

about the implications of monetary policy and economic indicators on the market price… and that's the whole point. Markets move according to changing expectations which are in turn, influenced by changing economic fundamentals. You can't succeed in this business simply by applying a trading system you bought off the shelf.

In trading, as with all other financially-rewarding endeavours, experience matters. So, get educated on this topic, and practice, practice, practice.

# Thank You!

Thank you for reading this booklet!

If it has helped you in some way, please consider leaving a review on Amazon.

Positive reviews really help get the message out there and I'd be extremely grateful if you would pen an honest review and tell me what you think about this book.

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If you have any questions or comments, please drop by my blog at http://pipmavens.com/blog and leave a comment on one of the articles or drop me a line.

Thanks, and I look forward to hearing from you.

Cheers,




**P.S.** Don’t forget to get the bonus chapters here: http://www.pipmavens.net/bonus