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The Trader's Curriculum

by Dr Vee

Insights · Practice · Growth

Weekly evidence-based insights to become the trader you're meant to be

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Playing the Right Game

Happy Sunday Traders!

This week we're talking about what it means to win in trading, and why a good coin not enough.

1. LEARN

You are not paid for one trade

Every trade is a toss of a coin you cannot read. What you can know is the coin. M Douglas built *Trading in the Zone* on this idea: you do not need to know what happ next to make money. You need an edge, meaning one outcome is simply more probs

next to make money. You need an edge, meaning one outcome is simply more probt than another, and the discipline to act on it every single time. The trouble is that sh samples hide the edge. Tversky and Kahneman called our habit of expecting a few tr to mirror the long run the belief in the law of small numbers. So judge yourself batches of trades, never on one.

Know your coin: expectancy

Your win rate alone tells you almost nothing. Van Tharp's *Trade Your Way to Finan Freedom* gives the number that does: expectancy = (win rate × average win) − (loss r × average loss), measured in R, the amount you risk per trade. Win 40% of the ti make 2R on winners and lose 1R on losers, and you get 0.4 × 2 − 0.6 × 1 = +0.2R trade. You lose six trades in ten and still profit, about +20R over 100 trades. The pr of that edge is streaks. In simulation, a 40% system produces eight or more losses i row somewhere in 100 trades about half the time. That is not the system breaking. I the coin.

Size so you can keep flipping

An edge only pays if you are still in the game to collect it. Alexander Elder's *Trading a Living* caps risk at 2% of equity per trade and stops trading for the month o losses reach 6%. Larry Hite, interviewed in Jack Schwager's *Market Wizards*, known for risking about 1%. Here is what ten losses in a row cost at different sizes:

Risk per trade	After 10 losses in a row	Gain needed to recover
1%	−9.6%	+11%
2%	−18.3%	+22%
5%	−40.1%	+67%
10%	−65.1%	+187%

Ralph Vince (The Mathematics of Money Management) and Ed Thorp (see Willi Poundstone's Fortune's Formula) show the deeper point: past a certain bet size, eve winning edge produces negative growth. Treat that size as a ceiling and stay well be it. You cannot control the toss. You can control the call, and the size of the bet.

2. TRAIN

Your three numbers

Before your next trade, know three things: your expectancy in R, the longest los streak your system can normally produce, and what that streak costs at your curr size.

Watch the coin (5 minutes)

Open a spreadsheet. In cell A1 type =IF(RAND()<0.6,1,-1), fill it down 10 rows, and s the column. Recalculate a few times and notice how often ten tosses look like a l coin. Now fill it down 1,000 rows and do the same. Keep the difference between two feelings in mind at your next drawdown.

Score the call, not the toss

For your next 20 trades, log only two things after each one: did I follow the plan (yes no), and the result in R, meaning profit or loss measured in units of your initial r (Van Tharp's *Trade Your Way to Financial Freedom* is the classic source). commentary on the result until trade 20. Then sort every trade into one of four box

	Won	**Lost**
Plan followed	Earned win. Repeat it.	Unlucky loss. Nothing to fix
Plan broken	Lucky win. The dangerous one.	Deserved loss. Fix this.

The lesson doesn't end here. Dive into this week's scientific references supporting th findings on our website

→ Dive Deeper

3. THIS WEEK'S QUESTION

If you couldn't see your P&L for your next 20 trades, how would you know whet you were trading well?

> Probability theory is nothing but common sense reduced to calculation.
>
> - Pierre-Simon Laplace, French Polymath

THE WEEKLY ROADMAP

With this week's topic in mind, it's time to prepare for execution. Explore my high time frame decision points guiding our Adepts' trading focus throughout the week

→ Explore Here

To one lesson at a time,

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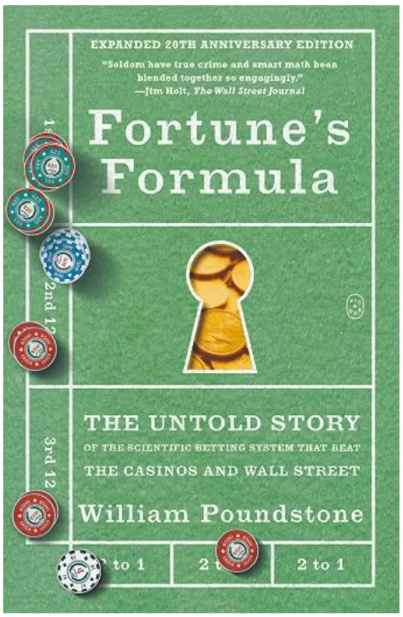
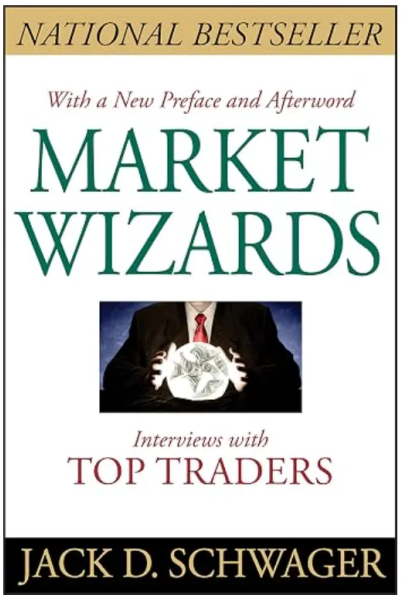
Futures Trader & Co-Founder of *Market Alchemists*

THIS WEEK'S BOOK RECOMMENDATIONS

1. **Fortune's Formula.** The Untold Story of the Scientific Betting System That Beat the Casinos and Wall Street.



2. **Market Wizards: Interviews with Top Traders.** Interview with Larry Hite on risking a small fraction of equity per trade.



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