

# HOW TO RISE ABOVE THE STATISTICS

IN STOCK AND OPTION TRADING



## How to Rise Above the Statistics

Why did you get into the markets? Were you looking for financial freedom? Additional income to support your lifestyle? Trying to retire earlier? There are an abundance of reasons why people dive into the markets. In my experience, the markets are savage and love to give beginners a false sense of success. I.e. “Beginner’s luck”

If you’ve fallen victim to the cruelty of beginner’s luck in the markets, you’re not alone. When I first started trading, I was in college trying to avoid getting a job and have a better lifestyle than my peers.

In my first month, I ran my account up 10x. If you asked me how I did it, I would tell you now that I was simply throwing darts on different call options, and it felt like I couldn’t lose. My parents would receive screenshots of my account value every couple days as I bragged about how “easy” the game was.

Of course, Mr. Market humbled me very quickly as I was able to lose all my profits and then some within just a couple weeks.

I started working with likeminded traders at my university and this was a far too common occurrence. In fact, it amazed me how many people have had this same experience.

At about this time, many traders are ready to throw in the towel and vow never to trade again. These people are the statistics you hear about. The stat goes along the lines of 80% of all day traders quit after two years.

And I get it. The mental aspect of the game is without a doubt the most frustrating but also the most important piece.

As I said, I was throwing darts at different call options and getting very lucky. This is quite the opposite of having a system. At that time, I was “paying my tuition.” I signed up for different trading mentors and had some luck at different points, but all led down the same road. Losing money.

After several years, I knew something had to change.

Reading *The Disciplined Trader* by Mark Douglas molded me into what I have become today.

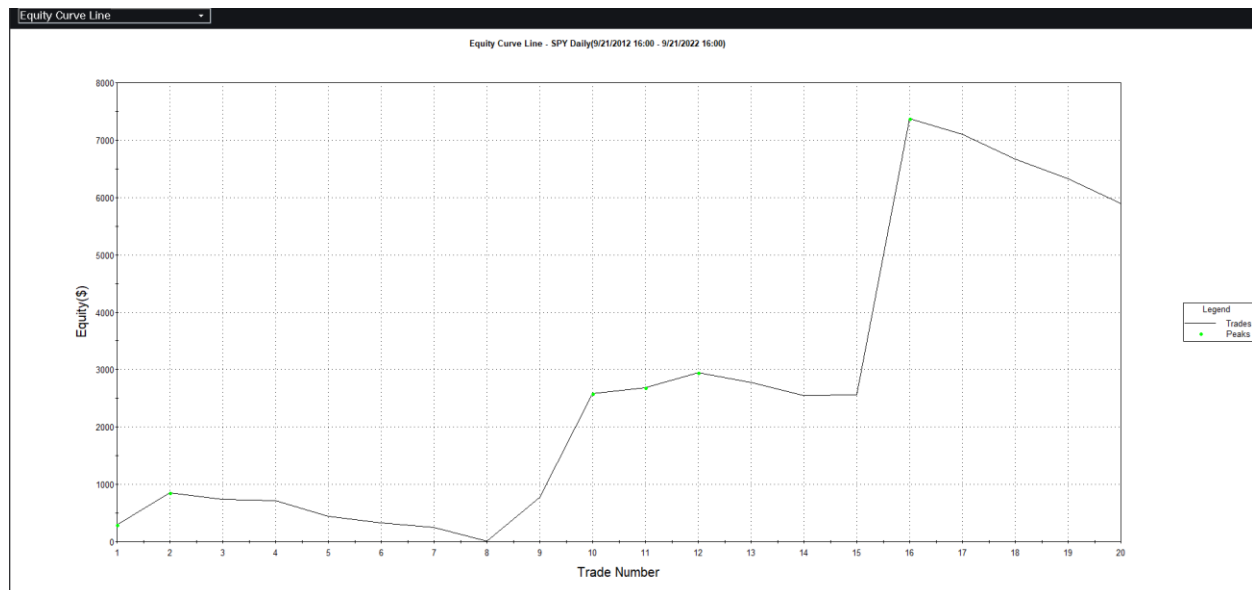
You will hear discipline is what separates profitable traders from struggling traders. There is 100% truth to that. If I were to define discipline in trading, I would say discipline is having a system of set parameters and indicators that automatically trigger regardless of the market conditions and any bias you have in the market.

What isn’t discipline? Entering trades that you THINK have a strong set up. Whether that’s Elliot Wave theory, moving averages, or any other common indicator you may see on Stock Twits or Fintwit.

Notice in the last sentence the word “THINK” is in all caps. You THINK that your moving averages have a winning edge over time. Have you tested it?

The most common EMA (Exponential Moving Average) trading strategy I’ve seen used is an EMA cross strategy with the 20 and 50 EMA’s. Simply buying when the 20 EMA crosses above the 50 EMA and

selling when the 20 EMA crosses back below the 50 EMA. Very simple strategy and many trading rooms sell this strategy to their subscribers. Here is the P/L chart of this strategy over the last 10 years on SPY.



Doesn't look too bad, does it? Well, first off, this strategy only has 20 trades over the last 10 years when testing it on SPY. Does it beat buy and hold? Well, this strategy has turned a \$10,000 account into a \$15,898 account. So roughly a 59% profit over the last 10 years. Compare that to the buy and hold strategy. If you bought \$10,000 worth of SPY 10 years ago today, your account would be up 163.3%. So, the EMA cross strategy does not beat a simple buy and hold.

I see it too often now. I've tested numerous EMA cross strategies and virtually none of them beat a buy and hold strategy over the last 10 years.

I'm not writing this E-Book beating down the EMA cross strategy. In fact, I have seen decent results when testing different EMA setups. Especially when traders use options to leverage those moves.

The purpose of this E-Book is to explain why so many traders fail.

Traders invest in mentorships or trade rooms and follow trades from their favorite traders and wind up losing nearly every time. It's not to say that all guru's don't test their strategies, some do and are profitable over time and do beat a buy and hold.

So, what does trading with a winning system look like?

Utmost discipline.

Removing every inkling of bias and taking every trade that your system triggers.

If you pick and choose your signals, then you are not following your system. This is discipline. Being able to cast aside your beliefs and bias and taking time tested strategies that you know has beaten the market consistently.

When you begin to lack discipline, your "mental capital" begins to drain. Mental capital is the thought process that goes behind every trade. If you're following a system but decide to throw money on a

“feeling” trade or a “gut” trade and you lose, you just lost mental capital. Your mind now wants to make up for the recent loss. Whether you add size your next trade, look for a homerun trade, or you simply just try another “gut” trade you are now going off the rails. Taking back-to-back “gut” trades is what can destroy mental capital and can send a trader spiraling.

It's a dark place and I hate to bring it up, but it happens all too often. That is why you hear the statistics of low success rates in retail market participants.

To recap, there are two reasons why traders fail:

1. They don't have a time-tested trading strategy. Traders will take trades for no true reason. Whether it's based on bias, gut feeling, or they're following their guru's trades.
2. They have a time-tested system but are undisciplined and drain their mental capital. Like I said earlier, the mental aspect of this game is the most important piece in trading. If you can save your mental capital by remaining discipline with a profitable strategy, then you will not drain your mental capital. In fact, you will build your mental capital, ie. Confidence.

So, what does this mean for you?

You need to ask yourself the question: “Do I have tested strategy that works over time?”

If so, great! Keep trucking along and your priority should be in discipline and following your system.

If you don't, then your priority should be in finding a system that works over time and beats buy and hold.

We do sell a system at 2-Day Trader; however, it is not for everyone. We are in and out of trades in less than 48 hours and we are trading at the money options using a combination of price action and proprietary indicators.

If this type of trading isn't for you, my recommendation is to find a mentor who does have a back tested system. Learn the parameters of the system and work on your own discipline.

Learn to backtest your own system. Today, they are numerous resources where you can backtest your system without any coding knowledge.

Trading is not easy. But, if you absorb and implement what's in this E-Book, your probabilities of success increase substantially.

I wish each of you success in your endeavors to master discipline in trading.

*In the market environment you have to make the rules to the game and then have the discipline to abide by these rules, even though the market moves in ways that will constantly tempt you into believing you don't need to follow your rules this time. – Mark Douglas. The Disciplined Trader*