ShareFinder Buy Hold Sell Profit

More on edges

A trading edge is a set of entry and exit criteria that, when executed, deliver profit trades that are sufficiently large enough to cover costs and loss trades. The biggest strength of deploying an edge in the market is not the edge itself, it is the processes that define executing the edge which, in turn, keep you engaged in the game. Focus on your processes and the outcomes will take care of themselves. Change your focus to the outcomes and your processes will break down which will lead to worse outcomes than you otherwise would have had.

Most technical analysts are on a quest for the ‘best’ edge. Just as a carpenter sees all things in terms of a hammer and nails, an analyst’s paradigm is that of analyzing technical entries and exits. The trader’s paradigm is that of executing trades according to their edge. The trader’s aim is NOT to find the BEST edge – it is to discover an edge and use it to engage the game and to continue engaging the game by risking capital to make profits – a trader trades, an analyst analyses. Analysis is just one of the techniques required to be a trader, it is a small part of the overall trading formula.

The BEST edge will NEVER be found. Take my word for it because the BEST edge is perfection, 100% winners, which does not and never will exist in any game (unless you do 1 trade, win and never trade again – but this defeats the object of risking capital to make profits unless you bet the house and ….. tempting!?). There will always be a better edge than the one you are using, either existing and in use somewhere on the planet or yet to be discovered. You will always be further ahead in the long haul by engaging the game according to a set of researched rules than being out of the game searching for the ‘best edge’ or being a spectator.

Opportunity cost through being a spectator will invariably be larger than the profit from waiting to find a better edge due to the lost opportunity from the compounding of profits offered by time spent playing in the game.

My message is: find, through your own research and/or otherwise, a credible proven edge, engage the game and get on with honing the remaining parts of the trading formula before time has passed you by and you have missed the opportunity of achieving compounding profits.

The fact is that well below perfection is OK to make money, and lots of it. Simple arithmetic proves this to us. Execution of that arithmetic has proved this to me personally and many of our customers over many years now. It is the understanding of what it means not to *have to be right* and hence what an edge is. Having 41.18% winners where the average winner is 2.68 x larger than the average loser net of brokerage and slippage, doing 6.85 trades a month over 6.06 years has delivered an annual compounded return of 24.16% compared to the ALL-ORDS Accumulation Index of 14.41% over the same period.

Adjust your anchor on the need to be right and the relativity of the size of winners compared to the size of losers.

Build trust in the arithmetic of what constitutes an edge then invest time to build or money to buy an edge. Then trust the edge and execute the processes that will deploy that edge in the market.