

The First Commandment for Trading

I remember one evening when Curtis Faith and I were planning the first of our *Advantage-You International Trading Workshops*.

As you can imagine, we were coming out with lots of ideas but we needed to find a way to organize them into a coherent framework.

Of course we were quite clear that the whole subject was about systems trading and systems trading has a clear definition. *Employing a mechanical system to decide when to trade, without personal intervention.*

But we were looking for a theme that could form the backbone of the workshop.

We had written several ideas down on the whiteboard. We decided to sleep on it.

Next morning, we met up again first thing, convinced that all we were looking for was the answer to this one question:

What would be the single most important thing we could teach students?

Determined to find the answer, we sat in front of the whiteboard and stared at what we'd written the night before.

I remember vividly the conversation that followed:

DAVID BROMLEY

We've got some good things on this board. If there was a *Ten Commandments for Trading*, I'm sure all these would be amongst them.

CURTIS FAITH nodded his head – then read aloud what was on the board:

- Avoid overtrading
- All signals are equally important.
- There's no such thing as a predictive system.
- Money management is crucial.
- Rare events happen in the markets all the time.
- The most important thing is to follow your system.

DAVID BROMLEY

So which of those is our number one?

CURTIS FAITH It's no contest. *The most important thing is to follow your system.*

DAVID BROMLEY It looks after all the other things on the list.

CURTIS FAITH Exactly! When a system is properly set up and thoroughly evaluated it takes full account of overtrading, money management and all that.

DAVID BROMLEY But if the system's not followed.....

CURTIS FAITH Then it's all a waste of time and money!

DAVID BROMLEY End of story.

The most important thing is to follow your system. This was adopted as the foundation stone of the seminars. We called it *The First Commandment for Trading.*

We were just at the beginning of making it all come together.

The more we talked, the more we realized that everything else was connected to this well worn phrase.

So well worn that it was the last thing we wrote on the board.

So well worn it has become almost meaningless because students no longer bother to ask what it means.

So well worn that their mentors have forgotten exactly why it is so important.

The more we talked the more we realized it wasn't going to be any easy task explaining why it was so important to follow your system.

Then it dawned on us that the best thing would be not to try to explain it at all.

Because:

Unless you were doing a lot of things right, you wouldn't be able to follow your system, so by explaining all the things you have to do right, the reason for following your system would be obvious.

This proved to be the right approach and we talked a long time about what you had to do first before you could follow your system.

The point is - you have to have a system that is FOLLOWABLE!

The idea of following your system in spite of all the agonies and pains of doing so is complete nonsense. But you get the impression that this is what you are expected to do when you first hear “you must follow your system”.

Most likely it's being said by someone who's heard it said by somebody important - so it must be important.

No, following your system should be pretty easy: the hard bit is producing a system that is followable - that requires a system that you feel comfortable following. That's the essence of it all.

Well, things fell into place after that and the structure of the workshop began to take shape.

We concluded in the end that it would be more accurate if our First Commandment was worded “The Most Important Thing is to be Comfortable with YOUR System – then You Will Follow It.”

As this was a bit of a mouthful, we decided to stick to the original wording although it was less explicit.

That workshop was well received and we got some good feedback.

Right at the beginning, we asked students to tell us what they wanted to get out of the workshop.

One of the students, we'll call him Andy, drew attention to the main title, which was “The Most Important Thing is to Follow Your System”

Andy asked why making a profit wasn't the most important thing and surely if you were having a bad time you'd want to alter your system, not follow it wouldn't you?

We asked for that one! And of course it would have to come up right at the beginning of the session. We suggested it should be written on the board and referred to later – perhaps the student would find it would get answered as we went along.

Then another student, we'll call him Bryan, told us what he was hoping to get from the workshop.

Bryan had already started trading - and he was confused. Not about the technicalities, like price movements, short trading etc. but how the good traders know when to take a buy or sell signal or an exit signal.

Secondly, how do these good traders judge which opportunities are best so they can put bigger stakes on the more promising situations?

We could not have wished for better questions than these because we knew they were the ones most students want answered. They want to know the secrets of the good traders.

We answered Bryan's questions straight away.

Answer to Bryan's first question:

The good traders, as Bryan calls them, don't know when to take a particular signal – they take all the signals. Their system generates the signals and it only generates signals they will take. If there were particular signals they didn't want, then their system would have to avoid generating them.

Answer to Bryan's second question:

These good traders don't know which are the best opportunities, they treat them all the same. The amount they put on a trade has nothing to do with 'how good it looks'.

Bryan was clearly taken aback by these answers. He was obviously disappointed that we were not going to teach him secret ways of knowing what the markets were going to do. Bryan was wondering what instead we would be telling him that would be any use. This was all clear from his reaction but we didn't go into detailed explanations there and then.

Yes, the 'good traders' do have secrets but from the answers we gave to Bryan's questions, you will realize that they are not the sort of secrets you might expect.

Some people would have you believe there are secrets you can buy that tell you how you can make big profits in the markets. If this was so, everybody would know these secrets within just a few days. Common sense tells you that this could never be.

The secrets used by the successful professional traders are not like that. They are built into the methods they use. These methods are easy to implement – if you have the resources. But getting the resources has been difficult in the past.

One of the resources is the *method know-how*, which was taught in the workshop I am telling you about. I call this the MODUS Method. This know-how has been learned by the

professional trading community over the period of evolution of systems trading, which is about 50 years or so.

There is no incentive for these traders to pass their knowledge beyond their own circle. But Curtis Faith and I have decided to do so because we believe that it is in the best interests of the trading business as a whole to do so.

The other essential resource is the software, which must be of the standard used by professional traders. It must be able to simulate live market conditions in test mode and enable full evaluation of systems. Examples are *VeriTrader* and *Trading Blox*, written by Curtis Faith.

Getting back to the workshop and following your system. The method of commodity trading can be learned, understood and repeated. Via the software it can be formulated into a system that can be delegated for running on a computer – in other words *systems traded*.

Although his methods and software look after all the detail work, a systems trader becomes very familiar with the characteristics of any system he is producing.

Because he understands what the METHOD is doing, he is likely to feel comfortable with any system that meets his personal goals when he evaluates it. He is therefore much more likely to be happy following such a system than if this were otherwise.

So why is it so important to follow your system?

The system trader delegates the day to day live operation of his trading system to his computer, so that it runs without interference from him.

This is in order to remove human intervention which is emotion packed, inconsistent and tends to be irrational, especially when under pressure.

Before he can delegate his system this way, the trader must feel comfortable with it, otherwise it won't work out – he will be tempted to interfere.

To reach this level of comfort the trader must have confidence that his system will take the pre-planned action in all circumstances and that no eventualities have been omitted.

The trader's METHOD, which includes a special testing and evaluation process, is what allows him to confirm that any system he decides to trade is capable of meeting his trading goals.

Having taken such meticulous trouble to produce such a system, the only thing that remains is for him to follow it. To interfere would invalidate all the work done and risk disaster – the ultimate being the loss of all his trading capital.

One interference affects everything that follows – not just the trade or situation that was first affected by the interference.

In Summary

The workshops were a success but we found we could not teach enough people quickly enough by this means.

For that reason, I decided to produce a home study workshop to teach the method. I call this the MODUS Commodity Trading Course. I have included fully functional professional software with this, which is called *Trading Blox System Tester*.

By the time the workshop was finished, Andy was content that his question had been answered. He realized that the markets vary all the time and that there will be spells when traders go through lean times and strings of losing trades.

During evaluation studies in the workshop, he saw that strings of losing trades were commonplace and there would be no reason to interfere with a system to try to prevent this. In fact this would directly contravene the First Commandment!

At the end of the workshop, Bryan said that he could now see why the two questions he'd asked were silly – and he wished he hadn't asked them.

There was no need for Bryan to feel that way because at one time we'd all imagined that the successful traders knew some sort of secret.

At this point, another of our students said that for some time he had felt instinctively that there would be a way you could trade systematically, although he had never been able to discover one – until he found the MODUS Method.

This made me realize that in most things, people seem to prefer a methodical approach to indeterminate free options. People need help with matters requiring discipline, which leaves them free for the more creative tasks they are better at doing.

Finally, lets consider if David Bromley was right when he said that ‘following your system looks after all the other things on the list’.

Remember what was written on the whiteboard?

Avoid overtrading

You will not overtrade because this risk will have been avoided when you found the risk resonance of your system and related it to your personal goals for risk and return – as your METHOD requires..

All signals are equally important.

You will only generate signals you will take – and you will only take signals that you generate.

There's no such thing as a predictive system.

You now understand all the things your METHOD does and you know that there is no element of prediction involved in your trading system.

Money management is crucial.

The method you use includes sound money management techniques, which are built into your specialist software.

Rare events happen in the markets all the time.

Your system will cater for all eventualities and will know what action to take when the 'unexpected' happens – without your interference.

The most important thing is to follow your system.

You will follow your system to ensure that all that we have said here is applied.

End of story.