

MARKET SPECULATORS PRESENTS

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Making Decisions

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First, please allow me to congratulate you for taking the time to read this publication. I intend to discuss the general elements of trend following and some simple business accounting to help you understand why trend following is the correct thing to do.

Every day we are faced with decisions. When we wake up in the morning, we decide what we are going to do first, then next, etc. The decisions we make have to be governed by some level of thinking. The basic idea is that what we believe drives what we do. Let us take a look at an example:

Example 1: Fill in the blank with a number that is supposed to follow the last number of the sequence...

1 , 2 , 3 , 4 , ___

For the example above, did you choose the number 5? What if the sequence was as follows...

1 , 2 , 3 , 4 , 5 , 4 , 3 , 2 , 1 , 0 , -1 , -2

If you were asked for the number after 5, would you choose the number 4 or did you think it should be 6?

In this exercise, the number you chose to fill in the blank reflected what you believed to be true. In this case, you believed the pattern was that, starting with 1, every consecutive number in the sequence is incremented by +1 from the previous number. You can describe this pattern as an upward pattern. However, in the sequence, the number 4 appears after the 5. This invalidates an upward pattern from consideration because 4 is not greater than 5. If you choose to still believe that the upward pattern just described above is still correct despite the fact that the number 4 is the next number after 5 in this sequence, you are deluding yourself.

Delusion = A false belief strongly held in spite of invalidating evidence

Therefore, to summarize...

What we DO is based on what we BELIEVE

Therefore, if we BELIEVE the wrong thing, we DO the wrong thing.

What we say does not correspond to what we do. What we say indicates what we can believe. But what we do reflects what we believe. Therefore, if you have faulty beliefs about the market, you make trades under false beliefs.

Do not delude yourself into believing something is true when there is evidence showing it is not or not necessarily true. In the markets, there are some principal beliefs you need to maintain in order to be successful. You can find these principals from the Bible if you sincerely look for them:

1. No man nor woman of any age can predict where the market is heading (its destination).
2. In order for the market to get to its destination, it has to show evidence that the market has moved towards its destination.
3. You shall know the market's destination once the trend has occurred.
4. You must endure losses to obtain gains. Note that gains do not come out of losses. Gains are gains and losses are losses by definition. A gain cannot be a loss nor can a loss be a gain.
5. The hope of trend following is that the trend that develops after another trend or a loss or series of losses is greater than the losses incurred over a period of time.
6. It may not be possible to always make money in the markets. Market conditions are constantly changing, so any strategy may not work if number 5 is not correct.
7. It is very difficult to trade and to endure losses. Many "confident" people can find that their confidence is misplaced in false beliefs. Confidence in The Truth is correct, but self-confidence places confidence in your own beliefs under the assumption that they are The Truth.

And now, the next point of discussion is why most people should not trade in the markets and why some elect to have others trade for them. Here are some potential reasons:

1. Trading may require a significant amount of time, both to learn and to actually trade.
2. Trading is a very mental endeavor. Strong emotional control and the right set of core beliefs are essential to successfully trade.
3. Sophisticated investors prefer to be the primary overseer of their finances rather than actually trading them. They tend to allocate more monies to profitable endeavors and decrease monies to unprofitable endeavors.
4. Sophisticated investors desire capital appreciation, not increasing their workload.

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