

Published based on [Avoid Prediction When Trading](#)

Avoid Prediction When Trading

Every trader would love to find a system that could predict the market accurately. After all, if you could do that successfully then trading would be a very easy way to make money indeed. But focussing on trying to predict the market is a recipe for failure. So, you must accept that you can't predict the market. Instead, you must focus on what you know and use this information to guide your trading.

Many years ago, J.P. Morgan was asked by a reporter what he thought the market was going to do. He knew exactly what it would do: it would fluctuate, as always. How true. His answer shows that even he did not know how the market was going to move. So he made no prediction that he could not stand over. Perhaps if J.P. Morgan was willing to accept he could not see what the market was about to do then probably we should accept that neither can we.

The truth is that we do not need to know how the market will move in order to be profitable. So avoid asking what will happen? Instead, always make sure your attention is focussed on identifying what is happening in the market. Then, use what you know to make decisions regarding different possibilities for the market. Then you need to assess and control the risks that are associated with your decisions.

How can I say that we do not need to know what the market will do? Because traders make money by trading in the same direction as the market is moving. You can't argue with this. So, to make profits always trade in the direction of the trend. Unlike predicting the future, this is something that can be done, as long as you have a trading system that is capable of identifying when there is a trend. Following this approach is what will give you the edge you need. Put another way, this approach will put the probabilities in your favour. Of course, trends will eventually end. So, your system must be able to identify the times when the trend is likely to reverse to ensure you don't trade at these times.

Notice that this is quite different than following the dictum that you make money in the financial markets by buying low and selling high. No one could argue but that this saying is true – but only in hindsight. The reason is how do you know that the price the market is offering at any point in time is either high or low? If the price has fallen and is below where it was last week, is this a low price? If we buy in then perhaps it will continue to fall lower! Is it low now? The fact is a Buy low-Sell high approach will only work if you manage to enter the trade in the short time period when the price has been falling but is just about to reverse, or has just reversed. The chances that you will get this right are low given that most of the time the market is not in this timeframe. No. Instead of trying to time market tops or bottoms the most consistently successful traders base their plans on buying at the market price and selling at a future higher price, or selling at the market price in order to buy back at a future lower price. This is what is meant by a [trend following strategy](#).

The market will ultimately move either up or down. By looking at a chart we can know in what direction it has been moving in the recent past. So, it will either continue in this direction, reverse direction, or move sideways for a while. Although we can never know for certain which will happen, by analysing the recent price action according to a pre-defined plan we can aim to identify which is the more likely move.

Look at a chart for any market. Identify a period when the market rallies (goes up). Now look at a period when it falls. Obviously, if the rallies are greater than the pullbacks then we have an upward trend. Or we may observe the reverse in which case we have a downward trend. The key conclusion is that if a market is in a trend then it

continues to move in that direction unless it reverses. And it only reverses once for the trend to be over. So it can be assumed that a trend will continue unless we observe a reason to conclude otherwise.

The strategy followed by [Spread Select](#) uses a series of screens to identify which markets are trending and then assesses each trending market to identify which will be considered for further analysis. This is all contained in a concise and accessible plan that will enable any trader to follow the strategy precisely. You can see a sample of this analysis as provided to our members by [clicking here](#).

Following this strategy is what gives a trader an edge. So, there are no mysteries here, no secret formulas, no fancy software. Instead what we have is a proven strategy which encapsulates easily stated and understood rules with experience to make the right decisions when discretion is required and the mental discipline to keep doing this. This is what professional traders do: they follow the rules of the strategy, use their experience to make decisions, and they do this over and over again.

As a trader, you might be able to work it all out for yourself and develop a successful strategy. Sure you will make mistakes – everyone does – but you will find that there are no secrets. So good luck in your efforts. However, mistakes in this business cost money ... and what will your mistakes cost you? What is your assessment of the risks?

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