

Science and STC Trading.

I like the STC trading system because it gives scope for thought. I initially wondered about the title " The Science of Trading Success " and wondered where the science came in. As time goes by however I think I appreciate this all the more.

I advance the following philosophy as the way I see STC at the moment.

I spent a year in full time scientific research many years ago in one of the physical sciences. In science you look at a series of observations, and apply some quantitative method to study these. From that you put forward a hypothesis. This is a supposition with little or no evidence to support it. You propose some consequence which might be true if that hypothesis were correct, and test that, usually in the physical sciences by some scientific experiment, but perhaps in the softer sciences it could be by some statistical review. If your experiment or preferably several experiments work as you expect you then have reason to believe there is more cause to accept the truth of your hypothesis, and advance the argument to the theory stage.

A theory has enough evidence to accept an argument as a "working fact." In other words you can plan, think, and operate on the basis of this being true. It is important to realize that a theory can never be proven absolutely true. If it operates and holds up to test, criticism and experiment for a sufficiently long period of time by the scientific community that it will eventually probably be accepted as fact.

A scientist has always to remember however that if clear evidence arises which conflicts with a theory then that theory must be rejected, and a new hypothesis and theory needs be proposed and then the cycle is repeated etc.

In trading our observations are the record of the market. As STC traders our chief analytical tools are the Barros Swings, fractal analysis in different timeframes, and knowledge of impulse structures . From these we can deduce hard evidence of trends, and statistics etc. We then seek to put all this knowledge together to form a hypothesis as to what the market will do. An important part of our thesis involves an assessment of how the timeframes will integrate, and as to whether there is a controlling time frame. For our testing or experiments we look at the market itself and the way it is and has behaved. When we deduce there is sufficient evidence in market action that our hypothesis has held up to some testing we advance our belief to the theory stage. This is a " working fact " and we can act on that by taking a trade when the right conditions develop i.e. zones, setups and triggers.

Sometimes this process will be simple when all the evidence points in one direction e.g. matching trends in higher time frames, and clearly evident impulse structures. At other times conflicting evidence must needs be weighed up e.g. conflicting higher timeframes or a real or apparent conflict between short term market action and one's big picture market view. Perhaps the market is in a primary buy or sell zone, and the assessment is whether the market will travel back across the congestion range, or make a new breakout. In these situations one might need at times to propose a hypothesis and wait for sufficient market action to occur until enough evidence seems to have accumulated to accept a theory of market action. When the right market conditions occur then one must be bold enough to act on the basis of that theory. At all times one must accept that price is reality and that actual market action is the final test of the theory adopted.

Thus the trader must always be willing to accept that his theory might be wrong, and accept the evidence the market gives him. He must not fall in love with a theory, but be willing to abandon it if market evidence demonstrates that it is not holding up in real life. The ultimate evidence might be if his entry stop is triggered, but once he is in a trade he should continue to be watching the market as action unfolds to see if his theory is being upheld or is being rejected, and should

modify his beliefs and actions accordingly. If his theory of market action is not developing as expected then he may get out of a trade even though his mechanical rules may not say so.

One might look at mastery of STC theory at two levels. The first is understanding of the mechanical concepts e.g. trends, setups, and triggers etc. The second or higher level is the analytical one making an analysis of the market using integration of time frames, controlling time frames, and present short term market action. All should get the first correct, the mastery of the second level should improve with time and practice. Experience does not necessarily beget improvement as it can reinforce bad patterns of thought and action, but if thought processes are directed along the correct channels with the gentle or more persuasive assistance of our tutors then hopefully our analytical skills will develop.

Ray Barros has a good history of trading success, and though I am sure this is due to good discipline, good psychology and good money management I am sure it must also be due to the exercise of his analytical skill to a high degree to get the most out of his "trading plan with an edge."

The first or mechanical level of trading can be readily learnt, and can be replicated by computer software such as "Pattern Smasher." The analytical process must be harder to reproduce. I expect it may be possible with the use of computer techniques, for after all "Big Blue" has produced a computer program that could defeat a world chess champion. I would think however for STC analysis to be computerized it would need to involve AI (artificial intelligence) rather than just "straightforward" or mechanical computer programming. The scientific process of hypothesis, theory, weight of evidence and sifting and evaluating opposing views would not go easily with a black box type of trading technique.

It would seem to me the fact that STC trading cannot be readily reproduced as a mechanical trading system should be an advantage to us future STC traders. Every man and his dog is out there in the market place running all sorts of mechanical trading systems, and if one has something a bit different, providing it is exercised to give one an edge then this should give us an advantage over the uninitiated.

End of philosophy ramblings.

from Peter Whitnall

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