System and Behavior Determine Trade Results

By Thomas Barmann

We want to share our research findings and give you an idea of what is needed to enter the world of high probability trading. Trading success results from a combination of system and behavior components, a step-by-step approach for you to follow.

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About the Author

His introduction to trading came when he was 22. Over the decades, he acquired a wealth of knowledge, how private investors can make money in the financial markets. He developed algorithms and software for high probability trading with defined trade situations, entries, exits, and stops. Thomas trades by taking advantage of spotting and trading along with institutional money moves, minimizing risk, and compounding interest. The crowd follows the leaders. As a private investor, you can do that, too. Your edge is that you are faster in and out of investment than institutions can: Trade what you see, let the chart tell when to buy or sell!

He aims to make the world a better place by sharing knowledge and giving education. For example, a tiny group of people knows how to trade the financial markets, and those who enter unprepared most likely donate their money to those who know.

For more information, please check:

Blog Posts: WordPress- and Blogspot

Join our Facebook Community:
https://www.**facebook**.com/TradeWhatYouSee

Experience a Live Interview at 52 Trades:

https://www.youtube.com/watch?reload=9&v=bloe89B5ZOY

Good trading,

Thomas Barmann

1. Introduction

This ebook shares our research findings and invites you to high probability trading. Upfront: trading success results from a combination of system and behavior components. Read on to experience what is needed!

When entering the world of trading, find a solid decision-making basis that lets you repetitively forecast price movements of underlying assets like Stocks, Options, Futures, FOREX. However, besides the technical component, trading will challenge your emotions and trigger subconscious patterns, and you need to prepare how to handle those.

Hypothesis: The probability of your system and the control of your behavior both influence your trading results.

Here are some of the determining factors we will further investigate:

System and Behavior Components

System	Behavior
High Probability ≥ 65%	Structured
Specified entries, exits, stops	Prepared
Trading at Price Turning Points	Repetitive
Risk-Limiting Strategies	Disciplined

Continuing this ebook, we will research the essential components needed for successful trading on the system side and in behavior.

2. The Basis of Trading Success

Trading success could have a simple equation: when you show higher wins than losses and win more often than you lose, everything is set and done to make money long-term.

However, easier said than done.

The above equation would sponsor the behavior of accepting minor losses and letting your winners rise.

Unfortunately, beginning traders often fall into this trap: set tight stops and try to let their winners run, and still end up losing. Why does that happen?

For capturing an entire or part of an evolving price movement, you need to leave enough wiggle room for not getting stopped in the natural statistical price volatility of the asset you trade.

Let me give you an example:

- Your system identifies a price move potential for $10
- The likelihood of the setup is 65% (high probability)
- The natural price behavior fluctuates with a $10 tolerance.

If you only allow for a $1 risk by setting a tight stop, you will get stopped all the time and never bring the trade to target. After being stopped ten times, you most likely will not push the trigger on the next opportunity and seek a new system.

Opposite to the base assumption, a tight stop setting is a tangible way for constantly losing money.

This triggers the question:

How much wiggle-room to leave when trading?

We built a quantitative model, and here are the research results:

Study Results of Risk/Reward Relations

Risk to Reward Distribution for Brining a Trade to Target

If you leave a 1.2-times wiggle room, you have an 80% chance of getting your trade to the specified target: simple.

What is mostly missing is a proven model to forecast a price movement in distance and time you relate the stop setting to. Most forecasting models fail because the price movements in the financial markets are generally not normally distributed; they happen erratic and are best described by a leader and follower model, where the crowd follows the leaders!

- In trading, extrapolating past happenings into the future will not lead to high probability decisions, else trading would be simple, and nobody would ever go to work.
- Price developments are not normal-distributed (Bell Curve); thus, decision-making models based on a standard distribution do not work long-term in your favor.

When price movements are not normal-distributed, is there a better mathematical model describing the actual happening of the financial exchanges that can lead to a high probability forecast of price movements that we can follow by algorithms? Hence, when we forecast a $10 price move, we leave $12 of wiggle room for bringing the trade with an 80% likelihood to target.

3. Price Distribution Model

The statistical model to use has to follow the natural price move happening: pushing every behavior into a Bell curve distribution leads to wrong assumptions. The following graphic shows you a considerable difference in actual price distribution and the premise of the standard distribution. It explains why predictability by using an incorrect model leads to false conclusions.

Erratic and Normal Distribution Compared
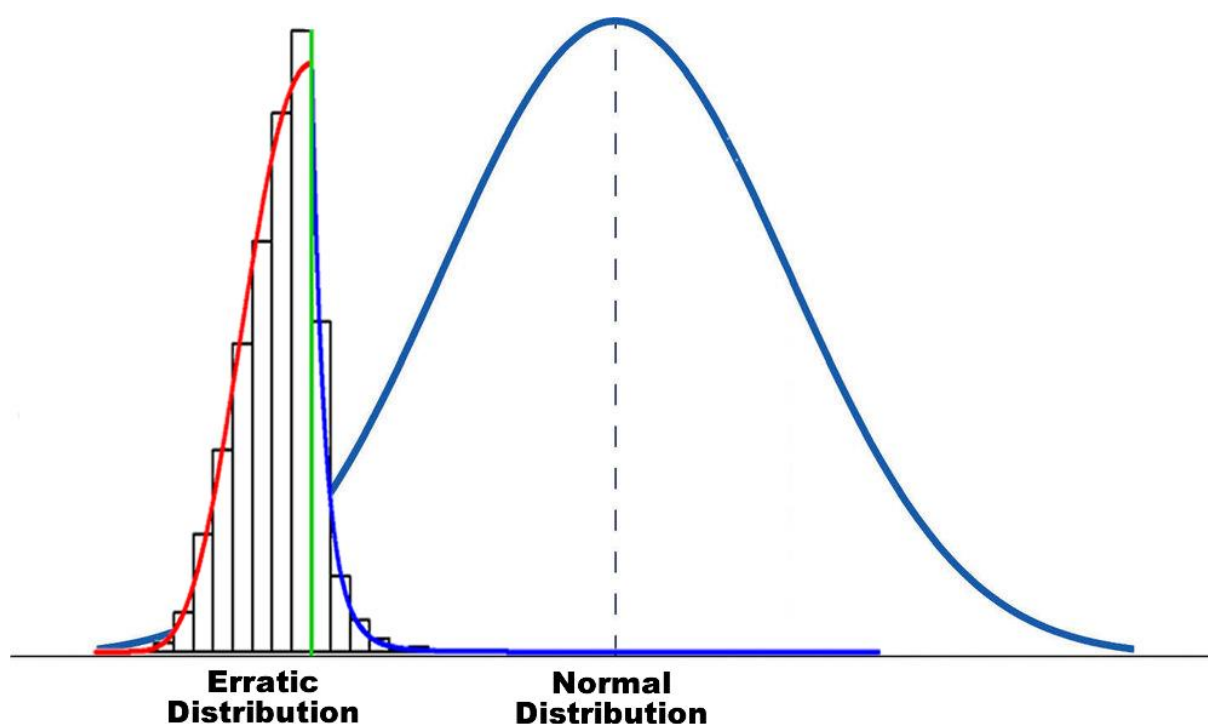
The actual happening: When an asset is accumulated (bought), other market participants quickly notice and jump on the bandwagon, raising the demand and prices. Same on a sell-off. The crowd follows the leaders!

Hence, please take the following notes:

- Prices are erratically distributed, not normal, and you better operate with a system that considers this in its algorithms.

- Do not extrapolate past actions into the future. Instead, let your system conclude from the action of now, notifying you about underlying changes in supply and demand that might lead to directional solid price moves.

A natural model that follows the described would be the systemic reading: It predicts based on specified pre-happenings:

- the potential
- and the expected magnitude

of a likely earthquake.

4. High Probability vers Low Probability

Most systems available to retail traders use a low probability forecasting model, primarily based on moving average crossing, extrapolating the past into the future.

To explain the importance of a high versus a low probability system, we compare the outcome of an experiment with a 55% system and a 65% system by calculating the statistical likelihood of winning six or more trades out of ten.

We are bombarded with statements and statistics of little validity our days. By our aim of helping you to strive for your trading and investing goals as a retail trader, we want to invite you into a new world of thinking and proof that what we state has a solid basis. If you are skeptical: please investigate the term [Bernoulli experiment](). Bernoulli was a Swiss mathematician living and influencing statistics in the seventeen hundreds. He developed the formula to produce a predictive value of statistical experiments so we can calculate/forecast the most likely happening. For replicating and calculating the difference of an outcome using a 55% and 65% probability and calculate the expected value of ten draws/games/trades, winning six or more times.

Probability of ≥ 6 Winners at 10 Draws (Bernoulli Experiment Statistics)

Winners	65% System	55% System
6	23.8%	23.8%
7	25.2%	16.6%
8	17.6%	7.6%
9	7.2%	2.1%
10	1.3%	0.3%
Sum	75.1%	50.4%

The table shows that forecasting based on a 65% likelihood gives you a 75.1% chance to achieve six or more winners. On the other hand, using a 55% system only gives you a random chance of 50.4% for more winners than losers.

What a difference 10% can make.

You see the importance of a high probability system for your future trading success.

Aside from probability, the decision-making process is essential.

Thus, the primary goal of forecasting a price movement is to identify the full range of measurable possibilities, not a limited set of illusory certainties. Hence, you best use an algorithm that helps you to quantify actuals and extrapolate the probability of future happenings.

The key to forecasting a future price event is in formulating probability-based trade entry, exit and stop conditions for each situation to relate risk and reward for making meaningful and fact-based financial decisions rather than emotional ones.

In essence, there are six dimensions to control. Unfortunately, the typical retail trader does not consider all decision-making

dimensions, which results in a detrimental number of private investors losing money: 76%.

If you like to learn more about the fact base and reasons for this statement, please write us an email:

contact@NeverLossTrading.com Subj.: 76%

and we send you an ebook with the synopsis.

In the next step, we put the trading dimensions to consider into a decision-making matrix:

Trading Decisions	Considerations
Entry Condition	Do you act on clearly formulated future-oriented entry conditions rather than looking into the past?
Exit Condition	Is your exit defined at the entry or rather vague, and you decide on the go?
Stop	Where do you place your stop to allow enough wiggle room for the trade to come to target?
Probability	What is the tested probability of the chosen trade situation to work based on past performance?
Risk/Reward	Do you have a probability-based risk/reward appraisal for accepting a trade situation?

5. The Financial Markets Explained

When we talk about financial markets, what do we mean?

The financial market provides a platform for buyers and sellers to meet for trading assets at a price determined by supply and

demand. Typical trading instruments are shares, securities, bonds, derivatives, etc.

The typical financial market participant is an institution. An institutional investor is a company or organization that invests money on their behalf or on behalf of other people.

We distinguish six different financial markets by their focus.

Overview of the Financial Markets

Money Market	**lending and borrowing**
Captial Market	stocks, bonds
Derivatives Market	futures, options
Commodities Market	gold, crude oil
Foreign Exchange Market	currencies
Spot Market	cash transaction

1. The **Money Market** focuses on the lending or borrowing of loans with a wide range of maturities. Here you find the typical banks and financial institutions as providers and corporations, and private persons to take the financing. Standard instruments of the money market are treasury bills, commercial papers, certificates of deposit, bills of exchange, etc.
2. In **Capital Markets,** you find stock trading and bonds in focus. The financing purpose is for lending or borrowing money for the longer term.
3. The **Derivatives Market** deals with trading Futures, Options, Forward Contracts and Swaps. Derivatives derive their value from the underlying assets, and they either function to manage financial risks or are used for speculation on the price change of the underlying asset.

4. **Commodity Markets** facilitate trading commodities like gold, oil, wheat, rice, etc. There are around 50 major commodity markets all over the world.
5. The **Foreign Exchange Market** allows the trading of currencies. These markets are operated through financial institutions and determine foreign exchange prices for every currency.
6. **Spot Market** is a market where transactions are done on the spot and in cash only.

If you operate in one or all of the listed financial markets, the other side of your trade has an 85% chance of being accepted by an institution.

The financial markets offer organized exchanges to buy and sell securities. The core function of an exchange is to ensure fair and orderly trading and the efficient dissemination of price information for the securities trading on that exchange. Institutional investors act in different roles and can simultaneously have more than one role.

We differentiate by their focus three categories of institutional investors operating at the exchanges:

Institutional Investors	Core Action
Fund Managers	Building funds, managing and offering them as investment vehicles to the general public and other institutions
Pro Traders	Trading their own account and are best in market analysis, asset- and sector change
Liquidity Providers	Offering at the bid and ask, allowing for fast transactions

In a simple graphic, we express the following roles institutional investors take:

Roles of Institutional Investors

In the above graph, we mentioned only some of the market operators, but you might now see how the model of the crowd is following the leaders comes into play. When prop traders, for example, initiate a buy-in or sell-off, it gets noticed, and the market either copies and follows or trades against the happening.

6. Price Move Model

For replicating the actual happening in the financial markets, we built a model, and it considers all we said above:

NeverLossTrading Price Move Model

1. **Prices accumulate** prior to a price move and our indicators are identifying this stage by measuring price-, volume- and volatility development, with the NLT-specific market pressure model.

2. Prices **test** the **high/low** of a range prior to breakout. Again, our sensors are triggered and alarm us.

3. **Breakout** to the next price increment. It shows and is highlighted right on our charts and picked up by our scanners.

4. The **price breakout is noticed** by key market participants and is either:
   - **Confirmed** – and we trade it.
   - **Not confirmed** – and we stay out.

Theory: Key asset holders will have a solid need to re-balance their inventories. Thus, at a particular price expansion, they will either float- or shorten supply, which will result in an opposite directional price move that will then take away from our profits. Knowing this, we pre-calculate how far the expected price move will reach, and there we take profit, assuming it will retrace or reverse after.

Hence, we let the market and institutions appraise the asset price journey and latch on, entering and exiting positions faster than institutions can.

Our brand name derives from the concept of repairing a trade instead of accepting a stop loss; however, Never Stop Loss Trading was a bit lengthy.

TradeColors.com is our introductory system to high probability trading. We always allow for upgrades; you only pay the difference if you start with TradeColors.com and upgrade after.

Many of our clients purchase more than one system: Our systems are productivity tools, and by combining them, you produce a higher participation rate and higher returns.

NeverLossTrading Systems Productivity Index
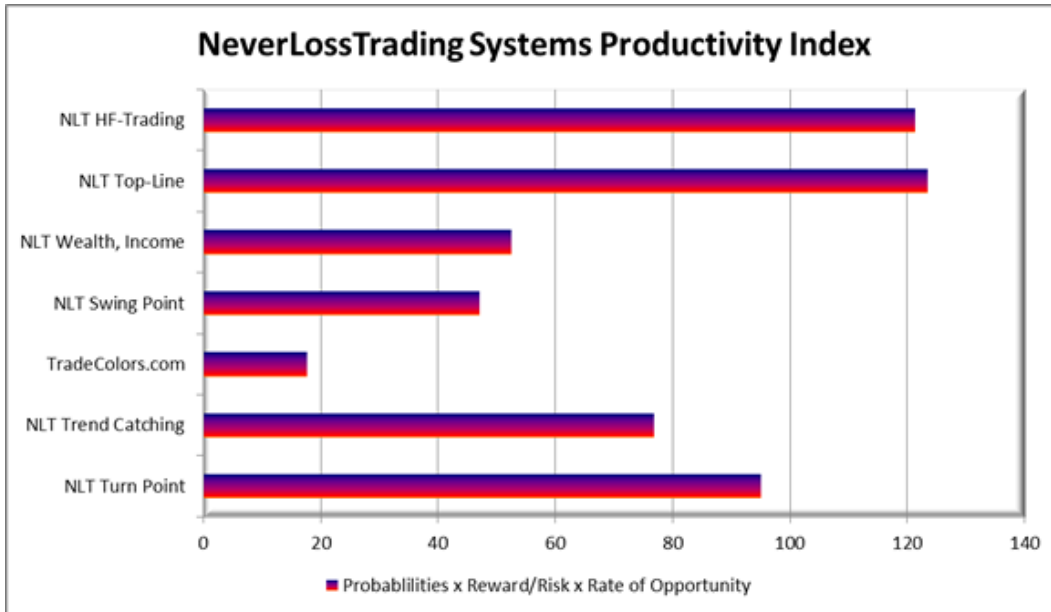
Our tool to calculate the expected price move is the **SPU = Speed Unit,** and it indicates how far a price move shall reach until it comes to an end.

With our systems, you can operate with conditional buy-stop and sell-stop OCO orders (one-cancels-the-other). Without the need to be in front of your computer for the orders to execute. You enter by price thresholds, ensuring that other market participants have the same directional assumption as you do and exit at the SPU target or adjust the trade at the stop.

NLT **SPU** = Price Move/Time Unit (Price Speed)

A dynamic measure: Constantly Adjusts to the Actual

SPU-Trade-Target:

Minimum expected price move after an institutional engagement is established.

By a change in the frequency and amplitude of the price movement over time, we specify indications to act on high

probability price turning points, applying mechanical rules rather than leaving room for interpretation.

Takeaways

- Operate with a system that gives you a 65% or higher likelihood to forecast price movements at critical price turning points.
- Let your system extrapolate the price movement for where to take profit.
- Define your stop by a maximum of 1.2-times the reward you are striving for.

7. Behavior

After setting system requirements, what behavior is needed to strive for a constant income from trading?

Important Behavior Components:

- In trading, your system is supposed to tell when to buy or sell. However, there is nothing to do at times, and not-successful traders feel they did nothing if they did not trade while successful traders accept the fact.
- Successful traders consider more factors in their trading decisions. Opposite to this, novice traders tend to act overconfident and impulsively. They take greater risk without looking at the bigger picture and tend to urge revenge trades after they booked a losing trade: now it has to work, period!
- Successful traders create greater financial returns by acting less frequently and holding positions to the system-specified target. On the other hand, novice traders often tend to cut their trades to targets short (anticipating, it could turn in the opposite direction).

- Traders that make money are more likely to deliberate before placing a trade and don't enter until their belief in the trade is high, often waiting for multiple indicators to be in sync and then act. Generally, they don't take sub-optimal setups as often as novice traders, producing a higher winning percentage.
- Most retail traders are more prone to refusing to admit when they are wrong and hold on to losing trades longer than they should, hoping that they will turn around. On the other hand, pro-traders tend to admit mistakes more quickly and are more willing, and they tend to adhere to a strategy more strictly and are better at cutting losses.
- Many retail traders tend to seek entertainment in trading, where they like to act on very short-term happenings, not considering that by the pure setup of the trade, considering slippage and commissions, they trade for action and will never make a return. However, successful traders are faster convinced and apply a meaningful approach to act at situations and setups where the odds are in their favor.
- Conserving capital is essential in trading, and the available data suggests that trading-pros tend to be more risk-averse than the average private trader. As a result, they trade less often and execute less risky strategies.
- Pro-traders may also be more likely to focus on a smaller asset base, allowing for more knowledge gathering and better management of trades with fewer areas to watch.
- Some researchers consider most retail traders act more competitive, contrary to pro-traders that avoid getting caught up in the adrenaline rush of the moment and focus instead on their eventual spending goals.
- Successful traders have already experienced that trading is not easy and therefore are more determined to succeed, including to dedicate time to practicing strategies and finding a mentor whose advice they feel comfortable heeding.

Let us put our findings into a summary graphic:

Crucial Trading Success Factors

Consider overall factors, patterns

Mechanical rules for entry, exit, stop

System > 65% probability

Risk adverse trading

Systematic trading

Trade at perfect moments only

Holding positions to target

Risk and reward in acceptable balance

Finding a mentor to learn from

Trade for meaningful price moves

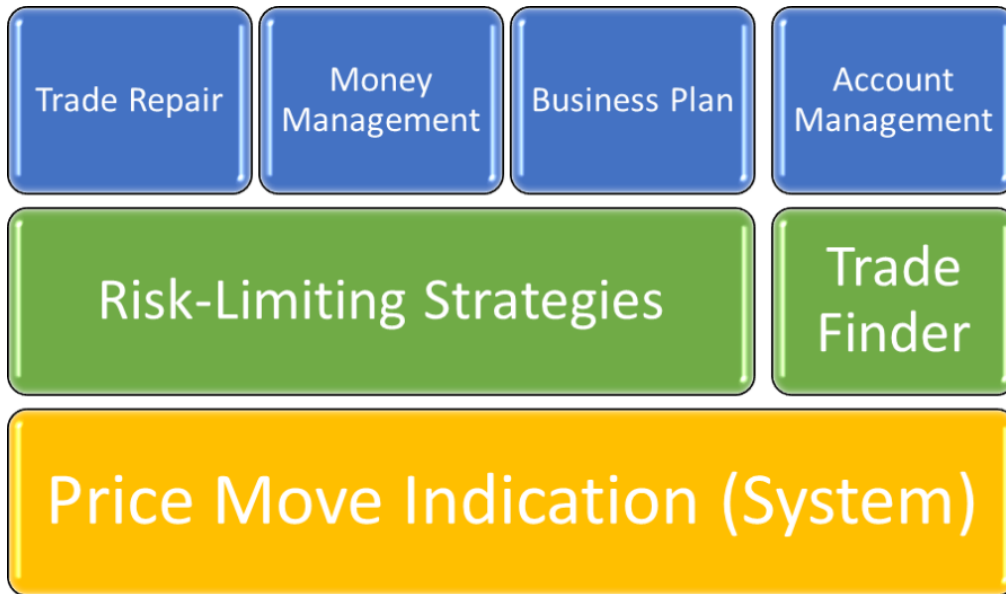Follow a business plan – action plan and financial plan

Now that we pointed out many differences, the conclusion for you are a reader is:

- Trade with a high probability system gives you mechanical rules for trade entry, exit, stop, or adjustment.
- Have a business plan for trading that you stick to, containing an action plan (when and how to trade, when not) and a financial plan (assets, timeframes, return opportunities and the financial goal).
- Analyze the situation well and take fewer and high quality/high probability trades only.
- Do not add to losing positions and hold your winners to target.

In our mentorships, we help you have all this in place, but you still have to work with your inner nature, in particular, when you are a man. Please take a look at the overview of what we want to share with you when you are working with us:

NeverLossTrading Mentorship Program Elements

Trade Repair	Money Management	Business Plan	Account Management

Risk-Limiting Strategies	Trade Finder

Price Move Indication (System)

At an algorithmic trading house, we want to quantify the difference in trading behavior and share some trade examples, building an income expectation model **based on the NLT Timeless Concept**. A concept where we focus on trading for pre-defined price increments rather than deciding on a time-based perspective.

8. Examples

In our mentorship and coaching programs, we teach how to use our system indications in combination with strategies and the needed behavior to strive for trading success.

Let us add some examples.

If you are not considering futures trading by today, we quickly share in a short overview the advantages futures trading can provide you:

Five Advantages of Futures Trading

Leveraged ROI
for Day and Swing Trading

Limited Numer
of Assets to Watch

Strong Diversification

Easy Risk Limiting

No Short-Selling
Restrictions

We hope this simple graphic explains why futures trading is essential as an investment vehicle. However, there is another dimension of futures trading: You can protect your assets using futures contracts for hedging, and we explain this and more in our mentorship programs.

Here is a daily NLT Trend Catching chart for the E-Mini S&P 500 Futures contract:

E-Mini S&P 500 Futures, NLT Trend Catching Chart
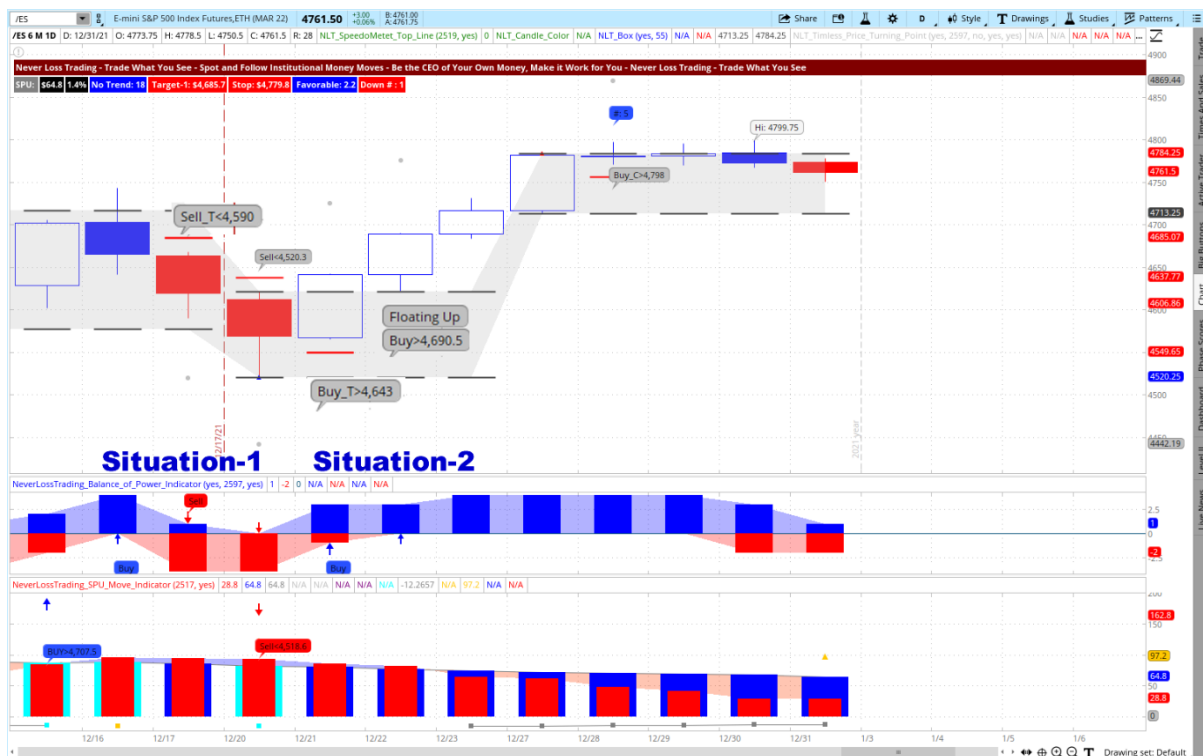
The chart covers the days of December 15 – 31, 2021, with two trade situations:

Situation-1: Short selling if the price on 12/20/2021 drops below the system spelled out price threshold of sell < $4590, which was the fact. The target of the trade (gray dot) specified the exit at $4520. During the trading day of December 20, the price came to target and the trade was closed. A red crossbar determined the stop level. In this example, a value change or win of $70 x $50 = $3,500 was achieved in just one day.

Situation-2: A long opportunity at a critical price turning point: Buy T_>$4643 specified the entry price level. The price broke out of the NLT Box and signified a solid up-move potential. The set target for the trade was $4725 (gray dot above the candle). In the next candle, an NLT Floating signal occurred and confirmed the strong up-move potential: Buy > $4690.50, with a target at $4776.50; hence, we moved our exit price level to the new target and such we were aiming for a price move

difference of $4776.50 - $4643 = $133.5 x $50 = $6675 in two days.

We had traded with solid returns considering a maintenance margin of $12,500.

In the following days of 2021, there was only one more signal: Buy_C > $4798, which was not confirmed in the price movement of the underlying futures contract and buy that did not lead to a trade.

In Summary:

- The system specified entries, exits and stops
- At times of no price movement, no trades signals occurred
- The shown trade examples had a meaningful relationship of risk to reward; for instance, in Situation-2, the trade aimed for a 1.44-times reward to risk by moving the target to the target of the floating signal.
- There are rules to learn, but they are learnable.

The NLT Trend Caching system helps you identify key price turning points and specifies continuation signals in the development and follow-through of a trend. For you to learn what is needed to operate with our systems, we tailor our mentorship and coaching programs so you can get the most for the trading style and risk affinity that suits you. In more than ten years of educating trading and investing, we had not worked with two clients of the same wants and needs, which explains why we work one-on-one only.

For the following example, we take IBM and the same trading period:

IBM on the NLT Trend Catching Chart, December 2021
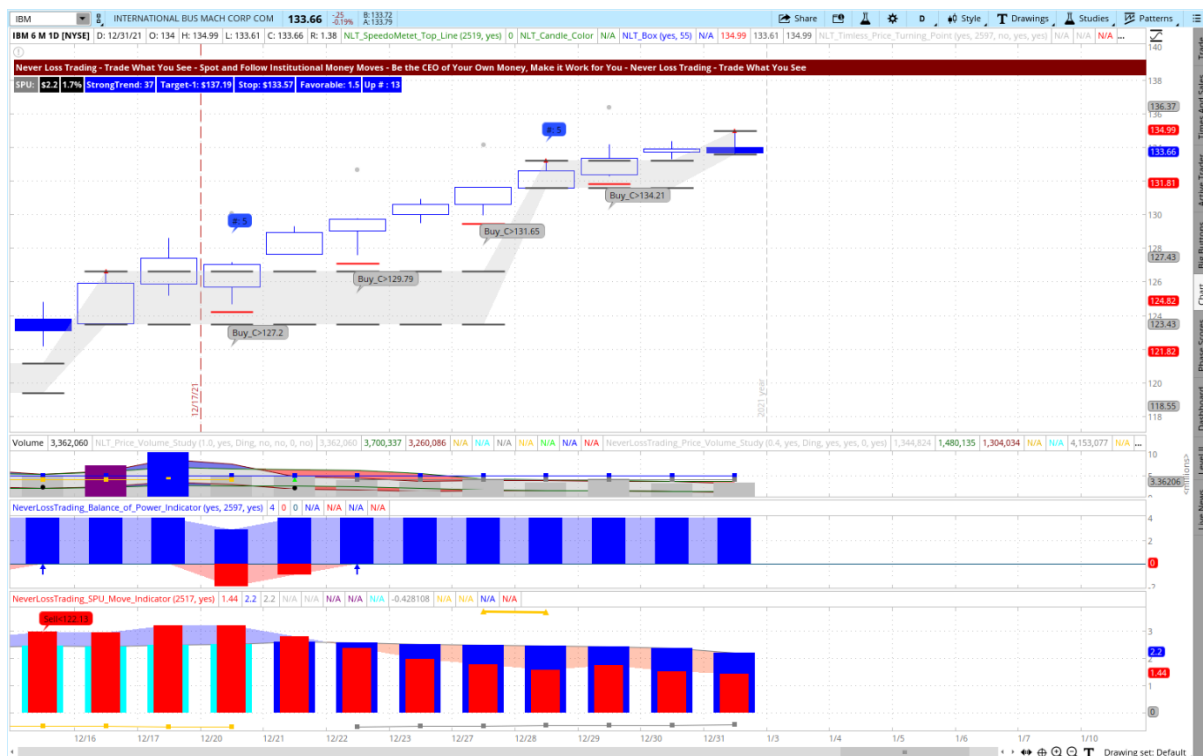
The chart shows multiple opportunities to enter into the evolving trend of the IBM price, and by adding to the target when a new signal occurred in the price move, you were able to strive to capture a much bigger movement than initially anticipated. In the NLT Trend Catching system, the signal specify the happenings as follows:

- Buy > shows trend initiation signals
- Buy_C> trend continuation signals
- Buy_T> critical price turning points
- Floating> price breakouts

The signals of Buy_T and Floating are part of the NLT Timeless trading concept, which helps you to act different, unpredictable and at high probability setups, with pre-specified reward/risk scenarios, providing you with opportunities for:

- Day Trading (multiple trades per day)
- Swing Trading (holding between one and five days)
- and Longer-Term Investing (holding for one to five weeks)

By participating in multiple time frames, you aim for multiple income streams.

NLT Timeless Swing Trading Example
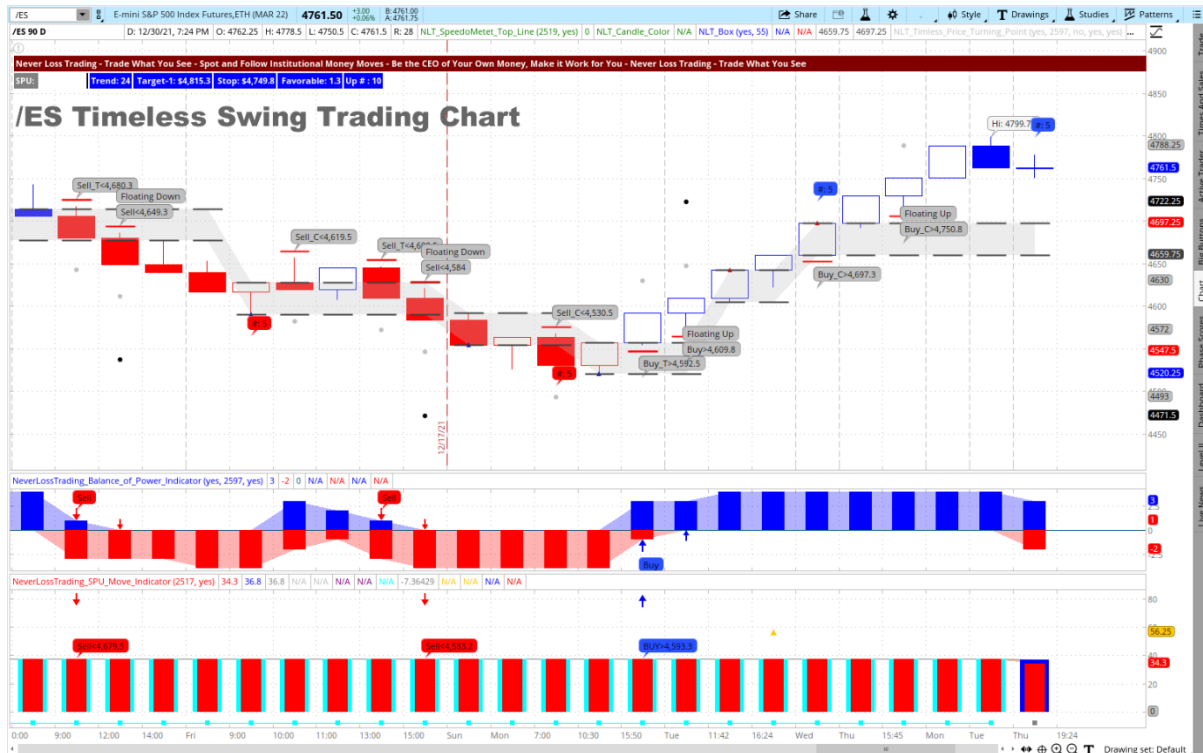
The NLT Timeless Swing trading example shows several trading opportunities in the observed timeframe of December 16 to 31, 2021. Look at them, and you will understand why we propagate, letting the chart tell when to buy or sell!

The average value change of the underlying futures contract in our example was around $2,000.

As you now know, the associated risk would need to be at a similar level to the reward. If such risk is outside your risk definition, you could also work with a micro contract, reducing your risk to 10% of the E-Mini contract.

We also pick a day trading example for the E-Mini S&P 500 futures contract for December 22 to 27, 2021.

You will immediately see how the system formulates multiple opportunities during the covered days with clearly spelled out

price thresholds and targets, where you can add to the target by continuation signals.

NLT Timeless Day Trading Example
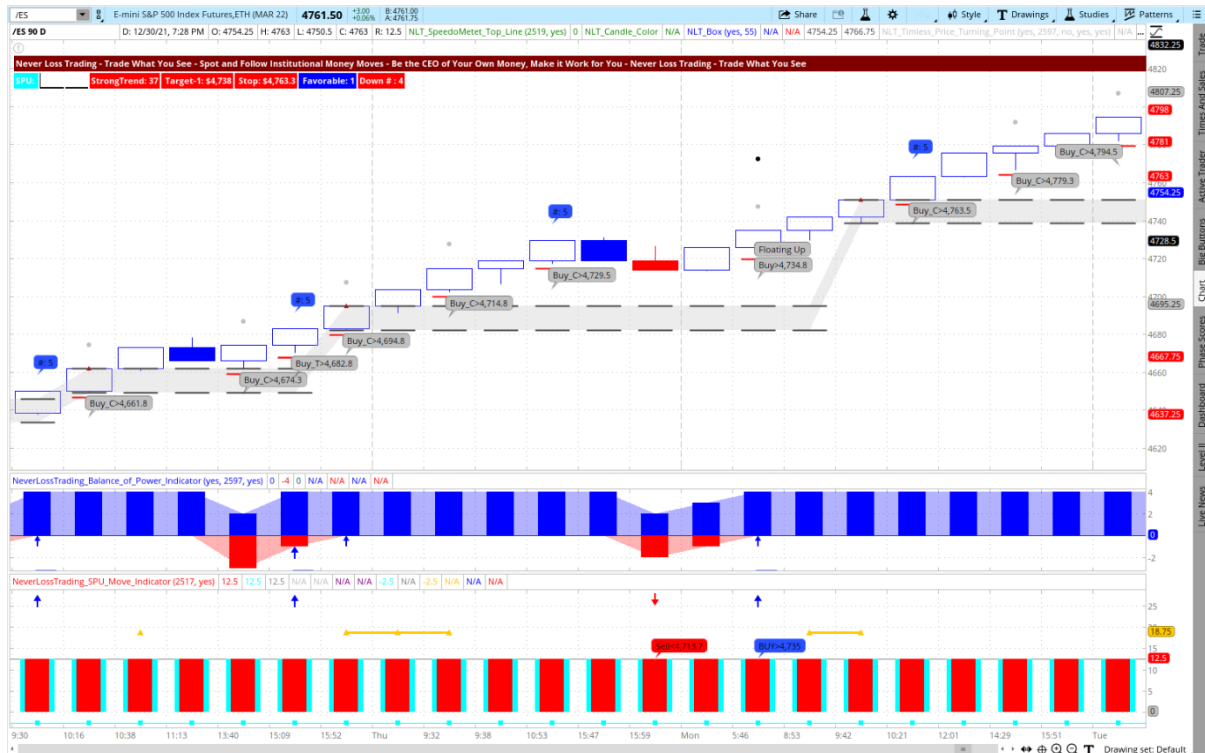
NLT Timeless Trading is only one way of putting our systems in action. We work one-on-one with our clients and develop tailored strategies that fit your circumstances, wants and needs. To experience how our systems work real-time, schedule an online meeting with us:

contact@NeverLossTrading.com, Subj.: Demonstration.

After sharing the importance of a solid system, let us bridge over to behavior:

- Do not come to trading with a work attitude. Making money in trading requires an intelligent attitude: Cash in your profits and leave the risk to somebody else!
- Prevent overtrading
- Stick to a business plan for trading success: action plan (when to trade and when not), financial plan (how often to trade, what to expect).

As an algorithmic trading house, let us quantify this based on trading futures by assuming: An average expectation of 5% ROC per week on the full margin allocation is feasible. We want to calculate the difference between more and less frequent trading.

Calculation Model

Futures to Day Trade	Tick Value	Average Ticks per Trade	Average Risk per Trade	Average Reward per Trade	Trades per Week	Income Expectation per Week	Capital Need at Full Margin	Return on Full Margin	Capital Need at Adjusted Margin	Return on Adjusted Margin
E-Mini S&P 500	$ 12.50	20	$300.00	$250.00	10	$ 575	$ 12,500	4.6%	500	115%
Crude Oil	$ 10.00	30	$360.00	$300.00	6	$ 414	$ 6,000	6.9%	1000	41%
Total					16	$ 989	$ 18,500	5.3%	1500	66%

If you reach 5% ROC per week 75% out of 50 trading weeks, this will result in an annual return expectation of 107% ROC. Based on our model, you are looking at $1,500 of income per month when trading one contract.

Weeks per year	75% Winning	Winning ROC	Losing ROC	Return Expectation
50	37	5%		185%
	13		-6%	-78%
Annual return at 5% ROC per week:				107%

To increase the income from trading, you have these choices:

- Add more capital to the full margin broker account
- Move to a budget broker account that allows day trading at reduced margins with multiple contracts

In addition, you can change behavior with a focus on trading less by reaching just one winner per day with the E-Mini S&P 500 contract (four per week) and two winners with Crude Oil Futures per week: Spot perfect setups, react and be good.

Conservative Trades per Week	Winning Income	Less Trading Winners	Difference to Probability
4	$ 250.00	$ 1,000	1.7
2	$ 300.00	$ 600	1.4
6		$ 1,600	1.6

Acting like this will increase your earnings expectation by 60%.

Hence, close the trading day after one winner in each category based on the weekly budget, trading one contract.

If you get this done 75% of the time and budget a maximum loss of the same amount 25% of the weeks, it will result in a 2.3-times or 230% increased earnings expectation:

| Weeks per year	75% Winning Weeks	Winning ROC	Losing ROC	Return Expectation
50	37	$ 1,600		$ 59,200
	13		$ 1,600	$ 20,800
Annual Return Expectation				$ 38,400
Monthly Return Expectation				$ 3,200

By trading less and with more accuracy, you increase your return expectations, and you still can increase the number of contracts to trade by adding money or moving to a reduced margin broker. What we shared in our day trading futures example also counts for stock trading, options trading, and FOREX trading. So let us pick a time-based and timeless stock trading example:

TSLA, 1h Chart, December 22 – 27, 2021
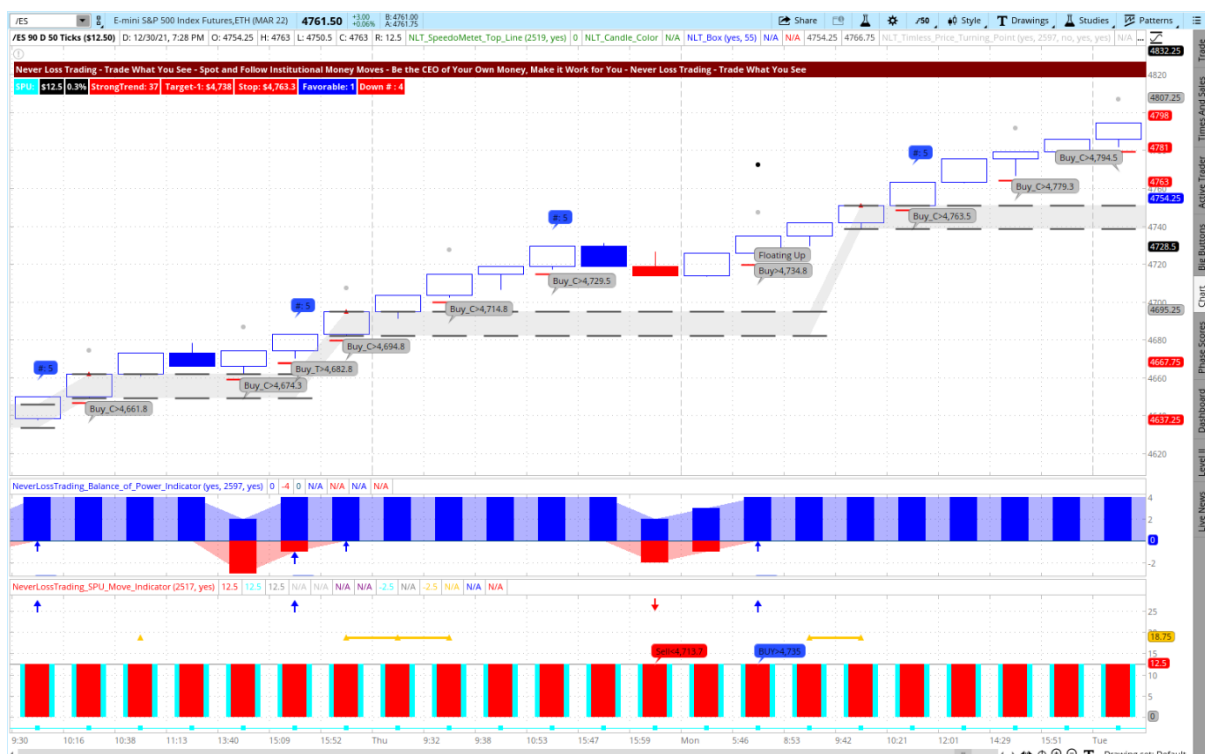
TSLA, NLT Timeless Chart, December 20 – 26, 2021
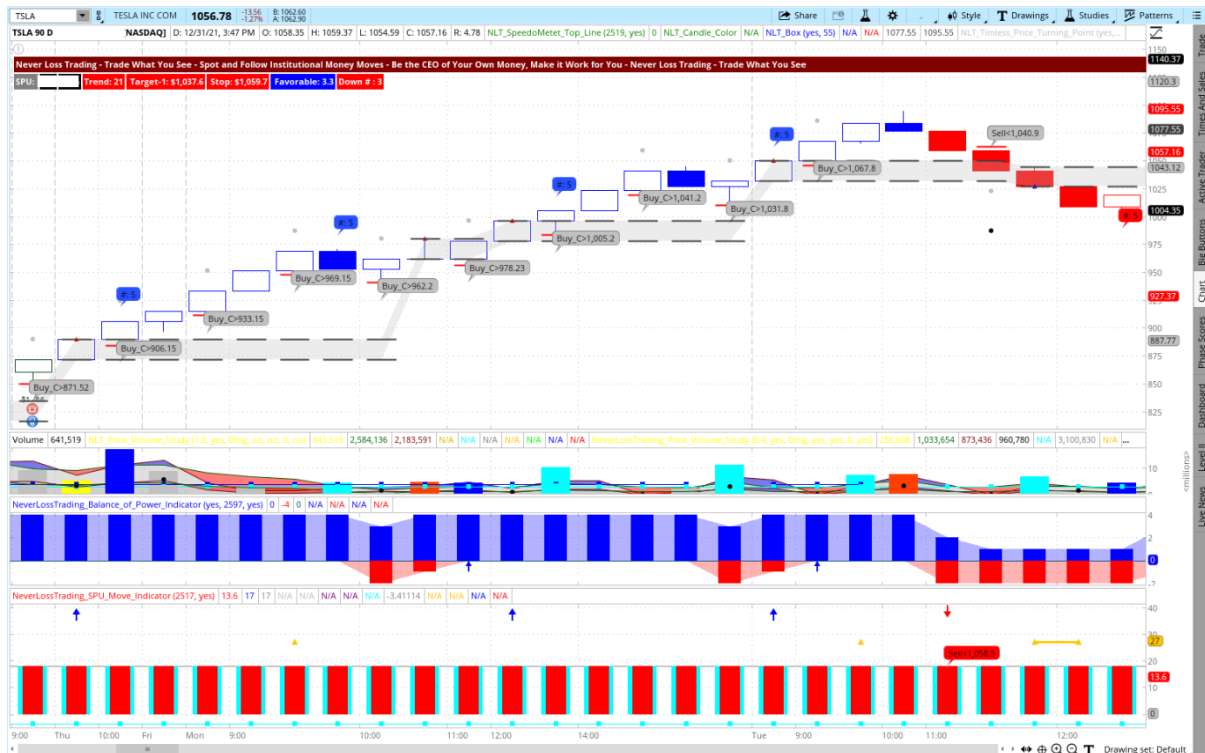
We are more than 10-years in the trading education business, teaching one-on-one at your best available days and times.

Trading our own account day-by-day and helping clients lets us provide long-term experiences and support. Customer service and tailored mentorships are our virtue. Following this principle, we provide:

- Server-installed Software
- Real-Time Data
- System-Defined Entries, Exits, and Stops
- Position-Sizing
- Time-in-a-Trade
- Trading-Strategies
- Risk-Handling
- Business Plan (financial- and action plan)
- Own scanners to find investment opportunities
- Watch list indicators for finding changes in supply and demand on multiple time frames

Basing your trading and investing decisions on defined rules is learnable, and we are here to support you!

Schedule your consulting hour! Working one-on-one spots are extremely limited: Do not miss out!

+1 866 455 4520 or contact@NeverLossTrading.com

With the NeverLossTrading concepts and education, we want to help you de-complex trading decisions and come to high probability trading by solving the challenges with the help of our systems on the spot:

Five Dimensions of Trading and Investing Decisions

Follow our free publications and webinars…sign up here, and we are looking forward to hearing back from you,

Thomas

www.NeverLossTrading.com

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