

Thinking Beyond The Obvious

Each Trader is unique. So is one's way of looking at the Charts. More so, the interpretation of price action is different by each Trader. This is when the basic OHLC and other data is the same for all. Well, the question is what separates the wheat from the chaff??

In my opinion winning Trader is able to develop (or is born with) the ability to Think Beyond The Obvious (TBTO). There is nothing wrong with selling when the indicator suggests overbought and such a strategy is successful too but will yield average returns because the Trader is taking an action which is expected to be taken by other Traders as well. In effect, more and more want piece of the same pie leading to smaller / average returns. Interestingly, too many people jumping for a ride leads to eventual break-down of the vehicle.

Similar is the case with break-outs. Most of us can identify a price break-out and yet less than 40% of those break-outs are successful. In other words, if you do what others are doing you will get returns similar to what others would get. Exactly for this reason there is a need to deliberately change one's perspective and "Unlearn" what has been learnt so far. Remember one has to "Unlearn" and not forget what was learnt earlier.

Let me digress a little. Three momentous battles of Panipat have been fought with each battle redefining the history of the Indian sub-continent. The first one, in the year 1526 had Ibrahim Lodi, the then emperor of Delhi Sultanate defend against invader Babar. Lodi had 100000 soldiers and 100 war elephants to Babur's 25000 soldiers and field artillery. Clearly the odds were against Babar. Clever as he was, Babar read the situation well and taking advantage of the situation he introduced new warfare tactics like Tulghuma (Dividing one's own army into smaller units to surround the enemy from all sides) to win the battle. He had to retreat if he would have adhered to conventional wisdom. Fighting an army four times as large is next to suicide. In short, it was TBTO that resulted in a win against a stronger opponent. Mughals got a toehold and they thus became an important part of Indian medieval history.

Now to address the question - What exactly is TBTO? Many would be lulled to believe that contrarian thinking is TBTO. My answer is that contrarian thinking is just a small part of TBTO. In my view TBTO includes (but not limited to) the following:

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- ✓ Questioning accepted norms
- ✓ Exploring new avenues to get the same or better result
- ✓ Recognizing the possibility of unknown or unexplored variables
- ✓ Sharpening observation skills
- ✓ Experimenting
- ✓ Establishing cause and effect relationship
- ✓ Using past experience
- ✓ Logical reasoning
- ✓ Developing an executable framework

In Trading TBTO will result in improving your edge. In an age where Algos are faster than you can comprehend it is TBTO that has the potential to give you a leg up. The realisation that there are no boundaries to your thinking actually unleashes your imagination. So put your thinking caps and start focusing seriously at less explored parameters / tools like Pure price action, Time, Geometry, Numeric etc. A word of caution here - TBTO can be useful only if it is followed up with rigourous testing and application.

P.S.: TBTO jumbled is TOTB - Thinking outside the box.