Twitter Thread by Trader knight



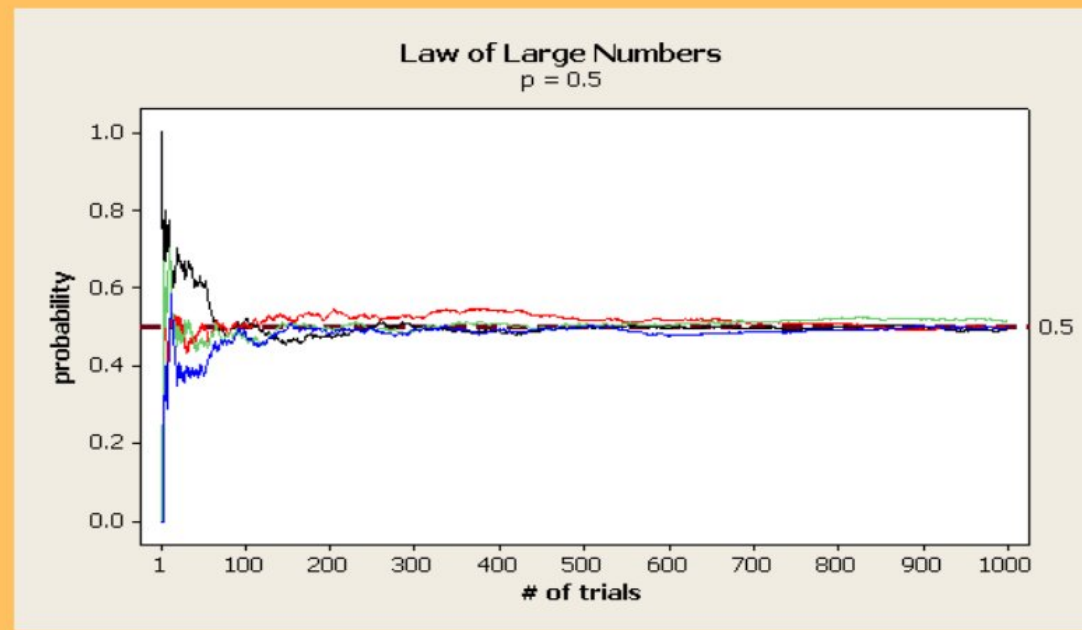
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"Don't change the trading rules after every trade."

If you do change them frequently then this thread is for you.

Let's talk about the law of large numbers and how it benefits traders to be profitable.

[Thread]■■■



Most people start tweaking the rules, chart settings and the indicator settings because now they think they have found the holy grail.

But they again end up changing them after next losing trade.

If you believe in the law of large numbers then;

Changing the buying rule from buy 1 point above the breakout to buy above 5 points or any tweak like that will not make much difference in the long run.

Law of large numbers is best illustrated by the example of a coin flip :

It has a 50% chance of landing on heads.

If we flip the coin twice, we have almost exactly equal chances of any scenario happening: heads twice, tails two evenly split.

The probability of getting 5 heads and 5 tails on ten flips is just 8% but that probability keeps increasing as we increase the sample size.

If one flips the coin 100 times, the probability of getting 50 heads and 50 tails (P=0.5) increases to 70% and so on.

When the market conditions are not in favour of a strategy, it's normal that it will suffer from drawdown.

In this period most traders can't face the heat,

and they try to modify the rules to filter out trades like the last one.

And in those process, they fit the best possible rules for the last few trades.

But you know they again and up in loss. because they never stick to the strategy for along time.

If you have a strategy that has an edge and if you not change the underlying parameters on the way, the law of large numbers will be in your favour.

Law of large numbers will be meaningless if you keep changing the rules.

It doesn't matter if the last trade was a winner or loser, it has no relevance on the outcome of the next trade.

Thank you for reading till here.
#trading