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It looks like every symptom on Google search leads to cancer.

So, when you have a symptom that Google screams CANCER, should you be afraid?

Before I answer that for you, let's talk about Occam's Razor and how you can use it to simplify your life.

Let's dive in. ■■■

1/ In the early 1900s, two physicists studied space and time and arrived at a similar conclusion: things tend to go a little bonkers within the space-time continuum.

Ex: The closer we get to moving at the speed of light, the more we slow down.

2/ Both the scientists arrived at the same results through their equations & derivations. But both had different explanations.

One suggested that the phenomenon was due to the changes that took place within "the ether". Another didn't refer to the ether at all.

3/ The latter won the Nobel prize and the world reveres him as a genius.

The former was the physicist named Lorentz.

The latter was Einstein.

This was the Einstein-Lorentz Relativity priority dispute that we are talking about.

4/ Lorentz's explanation wasn't given preference because according to science, the ether doesn't exist. When that's introduced into the equation, it makes things complicated.

Einstein used no references to the ether, and his simpler explanation rooted in scientific method won.

5/ This is classic Occam's Razor at play.

Occam's Razor is a philosophical tool, a mental model used in problem solving.

What does it say?

"Entities should not be multiplied without necessity"

In other words,

"The simplest explanation is usually the right one".

6/ Why is it called a "Razor"?

It helps shave off unnecessary, unlikely explanations and factors from explanations.

Whenever you have a hypothesis with two competing explanations, the simpler explanation is the most likely to be the valid one.

7/ Now, how do you deal with seeing Cancer in search results of your symptoms?

A version of Occam's Razor, "The Zebra" suggests you reject an exotic medical diagnosis when a more commonplace explanation is more likely.

"When you hear hoofbeats, think of horses not zebras"

8/ So, the next time you search for a symptom, let's say a headache, and Google would say it's a brain tumor.

A simpler explanation might say it's common cold or dehydration.

Which one is more likely to be valid? The simpler one.

9/ How can you use the knowledge of this law/razor in your trading and investing?

Let's first understand the two principles that constitute the razor.

i) Plurality should not be posited without necessity

ii)It is pointless to do with more what is done with less

10/ Together, these two principles form the Razor we use to shave off unnecessary factors in explanations.

You wouldn't use 3 men to do a one man's job. It's a waste of resources.

You wouldn't have 2 jobs, if you get a job that pays the equivalent of two.

11/ In trading, you apply Occam's razor by simplifying the trading process itself.

- You clean up your desk.
- No need for 5 monitors. One or two would do.
- You reduce your inputs for trading (news, media, TV, online forums).

12/ People perceive trading and investing to be difficult endeavors.

Because of this, you're often drawn to complex answers/solutions to succeed in them.

That's why complicated systems, indicators, workshops are all popular.

Very few believe simple things work.

13/ If you're a systematic trader, you're probably trying to cram as many rules as possible. You add more parameters, do more optimizing.

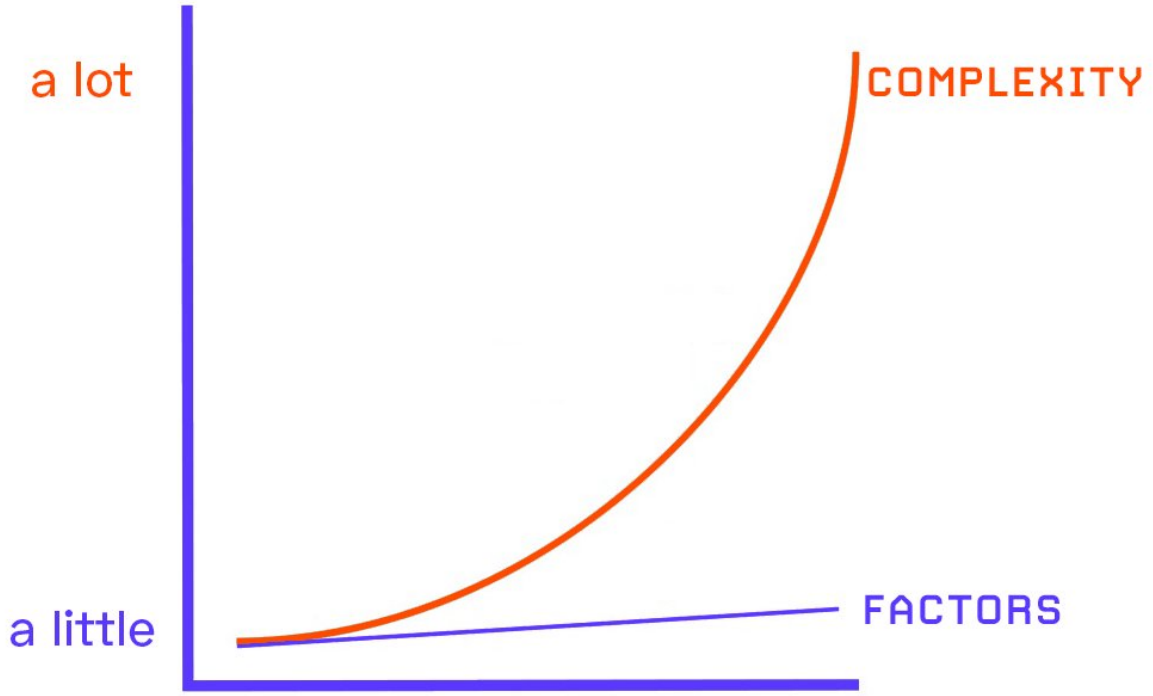
While this might get you a better backtest result, it will often result in the system not working in real time.

14/ As you add more parameters to your system, you're adding more complexity to your system.

The more the optimization, the more curve fitted the system to data.

Complex systems are usually fragile.

As the number of parameters grow linearly, complexity grows exponentially.



15/ On the contrary, it's possible to generalize some predictability into a trading strategy with fewer parameters and rules.

Simpler concepts and simpler rules based on fundamental market principles work.

They are also less likely to change in future.

16/ If you're a discretionary trader, you're likely following

- Twitter chatter, trends
- NSE announcements page
- Bloomberg, CNBC, Moneycontrol

and many other sources while trading.

Sometimes with these sources providing conflicting information, you can't even trade.



17/ This is called "analysis paralysis due to information overload".

You get all the information you need from the charts itself.

At worst, you'd need only one good news source to take your decisions.

18/ "More is better" is a wrong notion, especially in trading.

More knowledge won't bring more success beyond a point.

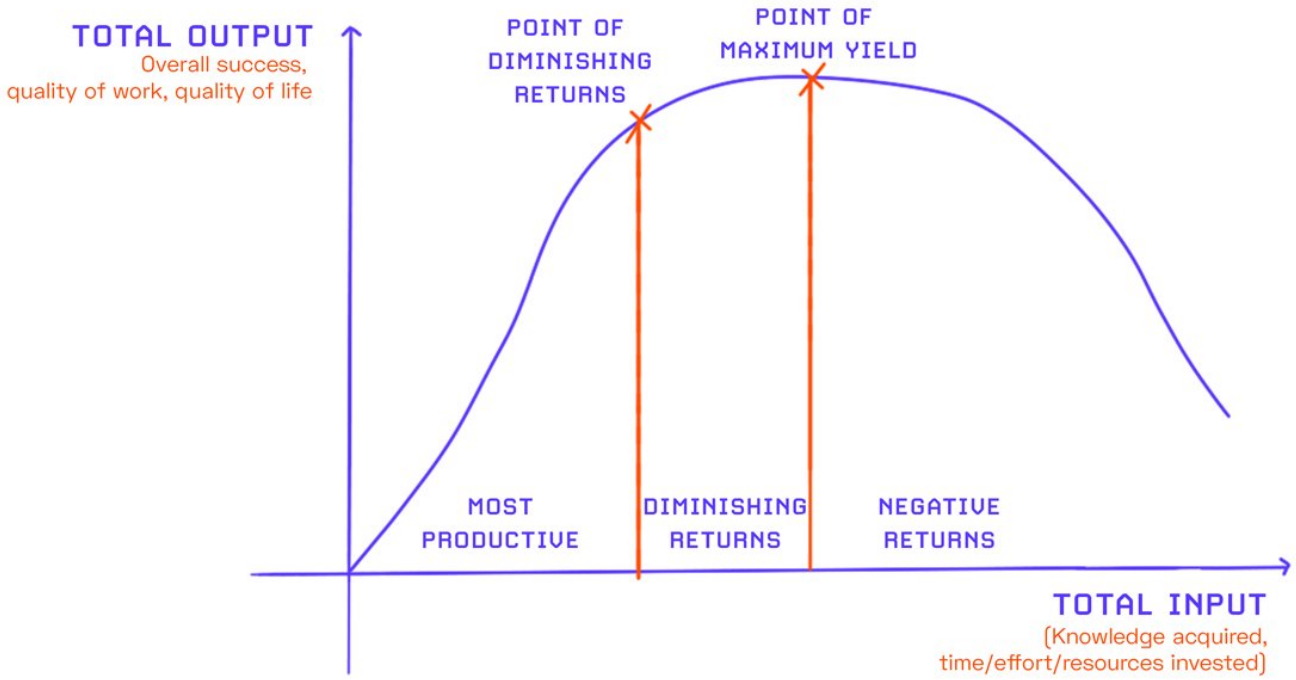
In fact, it's highly correlated to detrimental returns.

19/ This is where the law of diminishing returns come into picture.

Your returns increase proportional to effort/time/resources invested up to a certain point.

Beyond that, the returns diminish.

We see this phenomenon everywhere.



20/ Smartphones above a certain price point don't offer proportional value.

Above a certain net-worth number (say $100M), life doesn't get any better in proportion to extra money.

Likewise, doing more doesn't mean achieving more in proportion, beyond a certain point.

21/ So, when it comes to trading, try the following:

- Fewer/no indicators (naked charts)
- Less tweaking in backtests
- Maximum one or two instruments traded
- Cut off news, twitter, TV during trading hours.

22/ How to use the razor for investing?

Owning 5-6 mutual funds, you end up having overlapping stocks across funds.

You end up owning over 200 stocks, getting returns that are worse than the index.

Either go for one or two multicap/hybrid funds, or do passive index investing.

23/ Don't hire 3-4 advisors / research advisories, who all tell you different things.

One may want you to move to cash.

Another may tell you to invest more.

Another would tell you to liquidate and put everything into gold/real estate.

Which one do you listen to?

24/ So, simplify.

Find one financial advisor who understands your risk metrics, your financial goals, and tailors a plan for you.

That is more often enough to go after your financial goals in the most sustainable manner.

25/ Similarly, if you're into independent stock analysis, it may be tempting to use multiple models at the same time for valuation.

That doesn't make the process any better, only more complicated.

Keeping it simple and sticking to optimal number of inputs is important.

26/ All that said, "simple" ≠ "easy". Simple only means uncomplicated.

A simple process or system is not easy to develop.

It takes effort, probably years to develop a simple process that's robust enough to use consistently.

27/ Once you develop a simple plan, it requires discipline to execute. And, discipline doesn't come easy either.

There will be certain amount of complexity required to solve any problem, be it in anything.

We call this "intrinsic complexity".

28/ Anything that doesn't contribute to solving the problem is "accidental complexity".

So, the focus should be to avoid accidental complexity.

You must work with only the intrinsic complexity underlying any problem at hand. Avoid introducing accidental complexities.

29/ The next time you face a problem, or you want to improve in something,

- try simplifying the process
- try choosing fewer inputs.

That will improve most decisions you make.

30/ If you enjoyed this thread, smash the follow button on my profile to be notified every time I publish a thread.

Also, what are the things you feel are too complicated in your life right now? Comment below. Let's discuss a simpler approach to it.