The Virtue of Ignorance and the Wisdom of Seasonals

By Jake Bernstein

It is a known fact in the world of speculation that emotion is one of the greatest enemies of the speculator. Jesse Livermore one of the most well known speculators in American history, writing as Edwin LeFebvre, stressed this point repeatedly and he did so nearly a hundred years ago.

The fact is, sad but true, that the weak link in any trading system or investment program is the trader, or the investor. What is it that causes traders to err? In plain and simple English it's “too much thinking” that causes traders to make mistakes.

Even the most inexperienced of traders are aware of the fact that futures trading is a psychological game. After all the research is done, after all the trading systems have had their turn at bat, and after all the EXPERTS have given their forecasts, the fact remains that what traders actually DO in comparison to what they SHOULD do are two very different things.

For too many years, traders have considered the markets to be their chief enemy. Yet, in fact, it is the trader that is his, or her, worst enemy.

The Value of Ignorance

After many years of trading, I've come to the firm conclusion that too much thinking can be destructive to traders. The best way to trade, in my humble opinion, is to use mechanical systems and methods, which rely as little as possible on trader judgment or analysis.

Seasonal key date analysis, a method I developed many years ago, is just such an approach. But before we continue with the key date seasonal trades, take a little time to read the following discussion that explains and defends the “value of ignorance” approach to trading.

We are all guilty of using 20/20 hindsight. We are guilty of the **“I Should Have”** syndrome. Consider the following statements, all of which should be familiar to you, either in their stated form, or in countless variations on their themes:

I should have gone long when I wanted to. I knew the market was bottoming.

I should have used a stop loss. My system was right.

I should have added to my position. I knew it was the right thing to do.

I should have done what the charts told me to do. Getting out of my position because of the bearish news was clearly not the right thing.

I should have put on my position and closed my eyes to the day-to-day news developments.

I should have sold short and gone fishing.

I should have done my homework. Two days after I stopped following my technical indicators the market started one of its largest moves in history.

I should have traded with blinders on . . . my own feelings and analyses are best.

This is just a partial list of the "**should haves**" which are part and parcel of the 20/20 hindsight that all traders have.

There are thousands of traders who KNEW when stocks would top, who knew when interest rate futures would top, who KNEW when gold would bottom, but who didn't do a thing about it. In fact, these same individuals may, to make matters worse, have lost money in spite of the fact that they KNEW what the right action was and KNEW what was going to happen. Why didn't they do what they should have done?

This is, to be sure, the key issue. This is the issue that has haunted traders and investors for hundreds, if not for thousands of years. And it will continue to plague us all for hundreds of years to come. What's the answer? What follows will, I hope, help shed some light on at least one aspect of the problem.

Information Overload

Way back in the early 1980's, as the gold market was making its long-term top, the market was, as you can well imagine, extremely volatile. Emotion ran high. Forecasts were flying right and left. Talk of $1000; even $2000 gold was common.

Expectations of $100 silver (then about $45/oz) were also common, perpetuated in part by the very bullish public prognostications of Bunker Hunt. One of the most well attended investment seminars ever was held in Dallas near the peak of the gold market.

In the RealMoney Seminar I featured dozens of traders, advisors and other market experts commenting on the precious metals. As you can surmise, most analysts were bullish. As bullish as they were, they differed in how high they expected gold and silver to go.

Once the seminar was over and I had delivered my opinion to the crowd, I entered the elevator. As I waited for the elevator doors to close another man entered. He looked dazed and confused. We spoke briefly.

I commented that he looked upset. He told me that he had come to the conference expecting answers. Instead, he got so many different opinions that he was more confused than ever. In fact, he was frozen with indecision.

This situation is not unique. All too often we make mistakes by getting too much information as opposed to too little information. The more information we have, the more confusing things become.

The fact is there is no one-to-one relationship between the amount of information you have about a market and your ability to successfully trade it! Consistent with this fact of market life are several other facts I've observed, not only in my own trading, but with other traders as well.

Consider the following downside with respect to too much market related information:

1. **The more information you have about the markets, the more confused you'll be,** particularly if the information is contradictory. The fact is that given a plethora of information, traders will naturally attempt to integrate all of it into a meaningful decision. But this doesn't guarantee that the decision will be correct.

The opinions often balance each other out and leave the trader just as confused as ever. Furthermore, even an agreement by the majority may be wrong since it's a well known fact that the stronger group opinions are, the more likely they are to be wrong.

2. **The more information a trader has, the more likely it is that the trader will use it to justify an already established opinion** or position. Hence, the information has no value other than, perhaps, giving the trader a false sense of security.

3. **The more information a trader has, the more inclined the trader will be to get caught up in the emotional tornado of trading.** Too many traders are incapable of dealing with the tick-by-tick response of prices. Just watching the prices come across the ticker machine is enough to force them into action, action that may be totally contrary to their trading systems or methods.

4. **The more information a trader has, the more likely it is that the trader will find reasons to be insecure about his or her current position.** If the information is considered 'EXPERT' opinion, then the odds are that it will have a very negative impact and may, therefore, cause the trader to make errors.

Why Traders Crave Information

Given the above, we must ask why it is that traders seek information. Why is it that traders cannot appreciate the value of ignorance in the markets? The simple fact of the matter is that traders have been mentally and emotionally brainwashed by Western traditions, which are themselves part and parcel of the Judaeo-Christian work ethic.

We've been taught that in order to be successful we need to work hard, we need to have as much information as possible, and we need to understand the why of things. While this may be true in some areas of life, none of it is necessarily true in futures trading. The fact is that we don't need to know the whys and wherefores of things in the markets, nor do we need to gather a wealth of information on the markets in order to make money.

And all of this means that we DON'T have to work hard in order to trade profitably. In fact, I've found that there is often an inverse relationship between how hard you work and how much money you make. In fact, there is a point of diminishing returns when it comes to hard work in the markets.

My Suggestions

After my many and varied experiences in the futures markets I've arrived at several conclusions, all of which will, I feel, benefit you markedly if you suffer from the “INFORMATION OVERLOAD” syndrome. Here they are:

1. **Think long and hard about whether you really need a live quotation service in your home or office.** All too often I've seen good traders turn into bad traders as soon as they've added live quotes to their repertoire. Aside from being costly, these services tend to give you much more information than you need.

   They will encourage you to trade markets you don't need to trade or which you don't understand. They will encourage you to trade in time frames you don't want to trade (i.e. a position trader becomes a day-trader).

2. **Don't get too many chart services.** In fact, think about whether you want to get a chart service at all. I've found that traders who do things the good old fashioned way, by keeping their own charts, tend to be more serious and in better touch with the technical considerations they're trying to keep track of.

3. **And this brings me to the area of newsletters and advisory services. The simple truth is that you don't need more than one or two services.** Find a newsletter or advisory service you like and stick with it. If you get too many opinions from too many trading advisors you'll get confused and you won't do well.

4. **Information overload from brokers. All too many traders become “SITTING DUCKS” for talkative brokers.** By letting your broker jawbone you repeatedly, you'll be overloaded with all sorts of useless information. Whether willingly or unwillingly, brokers know that the more

information they throw at a client, the more likely it is that the client will trade more often.

5. **Compare your performance in the markets when you had a wealth of information to what it was when you were trading in relative isolation.** If my theory is correct then you'll find that you achieved your best results when you had the least amount of outside information.

6. **Keep a diary in which you record the results of each trade as well as a brief commentary about your results.** When you study them I'm sure you'll find that those trades which were carried out most closely in line with your system, served you much better than those trades, which were interfered with as a result of information overload.

7. **Do a little experiment and see for yourself. Make the commitment to avoid all input other than your trading system signals for a given period of time (for 2 months or so).** See for yourself how much of a difference this practice can make.

The Wisdom of Seasonal Key Date Trades

In light of all of the above, consider now the wisdom of seasonal key date trades.

Seasonal KDTs answer all the following vital questions for the trader:

1. **What market(s) to trade**
2. **Whether to buy or sell**
3. **The exact date to enter and exit**
4. **The exact stop loss to use**
5. **The complete performance history of the trade(s)**
6. **The exact time of day to enter or exit, and**
7. **The odds of success**

This important list can go a long way toward decreasing the number of losses and the dollar amount of each loss you take, by keeping you focused on a set of defined parameters, as provided by the key date rules.

Below is an example of a key date seasonal trade in Natural Gas. Note that this trade has a precise, pre-defined entry date, exit date and stop. It requires no judgement whatsoever. It requires no news, no analyst opinions, no charts and no fundamentals. At a glance, you know everything you need to know about a given trade or market. *And you can know it nearly a year ahead of time!*

Long May Natural Gas	Enter: 2/21	Exit: 3/10	Stop %: 5.00	P/L Ratio:12.7		Trade # 93945059
Contract Year	**Date In**	**Price In**	**Date Out**	**Price Out**	**Profit/Loss**	**Total**
1991	21-Feb	1.366	11-Mar	1.38	0.014	0.014
1992	21-Feb	1.196	10-Mar	1.215	0.019	0.033
1993	22-Feb	1.784	10-Mar	1.873	0.089	0.122
1994	22-Feb	2.22	10-Mar	2.144	-0.076	0.046
1995	21-Feb	1.436	10-Mar	1.514	0.078	0.124
1996	21-Feb	2.066	11-Mar	2.114	0.048	0.172
1997	21-Feb	1.94	10-Mar	2.025	0.085	0.257
1998	23-Feb	2.257	10-Mar	2.179	-0.078	0.179
1999	22-Feb	1.74	10-Mar	1.964	0.224	0.403
2000	22-Feb	2.564	10-Mar	2.804	0.24	0.643
2001	21-Feb	5.155	12-Mar	5.199	0.044	0.687
2002	21-Feb	2.513	11-Mar	3.068	0.555	1.242
2003	21-Feb	5.953	10-Mar	6.165	0.212	1.454
2004	23-Feb	5.123	10-Mar	5.475	0.352	1.806
Trades:	Winners:		Losers:	% Winners:		Daily PF:
14	12		2	85.71		0.0096
Avg Prof:			Avg Loss:		% Avg Prof:	% Avg Loss:
0.1633			-0.077		6.28	-3.44

All of the trades in HOST are key date seasonal trades. Experience has shown that the more you think about these trades, and the more you try to analyze them, the less likely you are to actually trade them. In fact, the most difficult part of trading seasonals is in setting your judgements aside!

Though Seasonal Key Date Trades are conceptually simple, *they are not simplistic*. They are thoroughly and rigorously derived from extensive historical data and analysis. They are 100% objective. Seasonal KDTs take the guess work out your trading. You know in advance what markets you'll be trading, when to enter, when to exit and where to set your stops.

More often than not, those that set out to "outsmart" the markets are likely to be sorely disappointed. Seasonal KDTs tell you exactly what the markets have done historically. The question is whether or not we can we listen.

Some Closing Thoughts

I'll leave you with a few closing thoughts extolling the virtues of ignorance.

These are thoughts gathered from many years of first hand experience as a stock and futures trader. What I say may run contrary to your every fiber as a thinking person, yet you must remember that the futures game is not necessarily a game which is won by brainpower. Rather, *the futures game is won by following your rules, letting your profits run and closing out your losers quickly*.

1. **Most traders are sorely lacking in discipline.** Discipline is the single most pervasive and costly problem facing futures traders. This has been the case for many years and isn't likely to change anytime soon. By adding more information to his or her repertoire, the already undisciplined trader will need to process even more information. The end result will be more confusion, not less confusion.

2. **Once you've decided on a course of action based on a trading system, don't change it,** unless the system changes or unless your stop loss is hit. The only thing additional input can do for you is to shake your discipline.

3. **If you're following a technical trading system, then the only input you need is the input that comes from your trading system.** When your system was designed and tested it KNEW nothing about the news, nothing about the fundamentals and above all, it had no emotion.

4. **Remember that emotion is the chief enemy of the futures trader,** always lurking in the deep dark often inaccessible corners of the mind. The more you can do to beat back emotion, the more likely you will be to succeed. Cutting off information is just one of the things you can do to facilitate success.

5. **Make a choice as soon as possible – will you trade technicals or fundamentals.** It's a rare individual who can do both.

   As a technical trader you'll have no need for the news. While there will be some news items which concern you, the vast majority of events, reports, etc. will be of no value to you.

   As a fundamental trader you WILL be interested in the news, reports, etc. But even a fundamental trader is still the potential victim of rumor, innuendo, worthless tips and an entire army of emotional responses.

   The technical trader who seeks fundamental input and the fundamental trader that glances at the technicals will, more often than not, only find his or her confidence shaken.

6. **Be close, but not too close to the markets**. Studying the behaviors of highly successful traders will show you without a doubt that their discipline in not second guessing trades, in not being "TOO SMART", was one of the key ingredients contributing to their success.

   While some information is necessary, too much information is destructive. In my book Market Masters, I interviewed well-known traders and market analysts. The following sage advise was given to us by Robert Prechter when he was asked if a trader needed to have close contact with the markets in order to succeed:

   if you're not close enough to the markets, you lose money. If you're too close to the markets you lose money twice as fast. You should be just as close to the markets as you need to be in order to monitor and protect your trade . . .

Whether or not you become a fan of Key Date Seasonals, if you will reflect on your own trading in light of all of the above I believe that the insights you gain will ultimately make you a better trader.