



Forex Visionaries – Part Five



Andrei Knight

In this last instalment of the serialisation of FX Street's Forex Visionaries series, we hear from Andrei Knight.

You participated in professional chess tournaments and spent many years studying Japanese martial arts. Would traders be more successful by integrating Western and Eastern philosophies?

Chess taught me to study my opponents' tactics and to plan several moves ahead, while martial arts taught me to keep a level head in stressful situations, as well as the value of patience. It is said that when the legendary swordsman Miyamoto Musashi was involved in a duel, the fight lasted exactly two moves. First his opponents would finally lose their nerve in the stare down and strike, and once the attack was seen it could then easily be countered and retaliated. This is certainly a lesson many traders could benefit from – who moves first, often loses.

Being fast is not always the best option... but how can traders learn the art of patience?

The number one issue I run across in coaching other traders is their impatience. They feel as if they're not participating unless they are in a trade, and as a result spend too much time trading (or most often sweating), and not enough time on analysis, practicing core skills, or simply watching the markets to get a feel for their "mood" on a particular day. So many of the losses are caused simply by jumping in (or out!) prematurely.

And what about the financial world?

As for the broader financial markets, I suppose they would be a bit better if more emphasis were placed on honour, integrity, and most of all on never-ending self-improvement.

As an experienced mentor and trading coach, can you tell us which educational model has been the most innovative and important in recent years?

I think the giant leap forward in trading education came with the advent of online conferencing software. It is simply amazing that I can share my desktop and charts in real-time with traders all over the world. I can also wear a headset and speak out loud as I analyse a trade set-up and evaluate reasons for getting in, staying in, getting out, or staying out as I point to various candles or indicators on the chart. Plus, they can type their questions or even upload their own charts for evaluation.

This is an interesting duality: you are far from people geographically speaking but closer than before...

This is a giant leap forward, as previously doing a workshop involved hopping on a plane and flying out to their city (which I still very much enjoy doing when the opportunity arises, but obviously this approach has limitations). And, thanks to internet video, I can also record my workshops and make them available for people to watch at their own convenience. It is really an exciting time both for those looking to learn, and also for those providing that education.

What will be the educational model of the future?

Well, I cannot imagine how the technology can improve further. Faster bandwidth, sure, and there's always telepresence – though I'm not sure seeing my face bigger or in 3D necessarily equates to better education. Where the main advances will come, I think, will be more in the form of a broader spectrum of traders adopting the current technologies. You no longer have to face the markets alone.

Do you think strategies like Point and Figure or Murray maths will continue to gain in popularity?

The main benefit of any strategy is its

ability to help you understand what the markets are in the process of doing. Are they trending? Ranging? Reversing? Different minds interpret data in different ways. I do not think that any one strategy is necessarily any better than any other, it is more a matter of what makes sense to YOU. Can you understand it, can you act on it? And does it generate the sorts of results you're after on a consistent enough basis? Certainly, there is a little bit of a "fad" factor – different strategies are always coming into or out of favor. And there are always the "standards". Hoyle introduced P&F in 1898. Pivot points have been used by floor traders for nearly a century as well. Candlesticks were first used by Japanese rice farmers over 900 years ago in order to plan next year's planting according to the consumption patterns from prior years.

Will the market continue to trade with those well-known but old approaches? Or do you see the inception of a new strategy that will impose itself?

Techniques that stand the test of time do so for one simple reason – because they work. And I'm sure with time new ones will be developed as well, but I don't think that necessarily means that the good ones we use currently will fade away as a result.

How do you think the forex world could become more professional?

Certainly there are a lot of scams and unsavoury characters out there. But there are also lots of legitimate firms with good products, and a genuine desire to help traders or make consistent profits for their clients. The (retail side of the) industry is still relatively young and has some "growing up" to do, much like commodities firms were considered the "rouges" of the 70s and 80s. Best thing firms can do to help forex gain



legitimacy is to act professionally, and treat their clients with respect.

You just talked about scammers...what is your opinion about current market regulations?

The regulators could help things along by fostering growth, new companies, and new ideas, instead of fearing and retarding change and innovation. So far, all of the recent changes have hurt the business more than anything, with many of the leading brokers reporting declines in trading volumes – some as high as 83%. This makes it harder for legitimate firms to enter the market and compete effectively. Most cannot afford a team of high-powered compliance attorneys, and those who can (Bear Sterns, Lehman Brothers, MF Global come to mind) aren't necessarily using their resources in the best interests of their clients and shareholders. Meanwhile the scammers will continue to exist on the fringes and by and large ignore regulations anyway. What I think we need is a dialog – regulators need to be open to input from people on the ground, the ones who interface with markets and clients on a daily basis.

So you don't think market regulators are preserving the forex industry?

The foreign exchange has been there since man's earliest times, and always will be. Regulators cannot change the world's need to exchange currencies, what they are trying to influence is how those exchanges take place. In the US, there certainly seems to be a move to bring this trading back to the more traditional exchanges. The CME actually authored much of the legislation recently adopted by the NFA and the CFTC. The SEC outlawed CFDs because you can't have stocks traded 24 hours per day, both long and short, and at a much higher leverage than what is offered on the NYSE. People complained when forex was limited to 100:1, forgetting that stocks are generally traded at 1:1 or (if you have the funds and the credit) maybe up to 2:1. People forget that to trade stocks on anything lower than a daily chart, you often need at least \$25,000 on your account. We are somewhat spoiled in forex. But I do think the regulators are somewhat shortsighted in their approach... rather than

try and restrict newer, more innovative products, perhaps they should try and make the older, more-established products and exchanges more competitive.

What kind of technologies do you see traders using to analyse markets in the future?

Overall, I personally think the future lies in social networks. There are already many sites where you can connect with others and trade as group. Some brokers are starting to offer this service as well, as are educators like myself. And don't forget Twitter – this simple little site is often overlooked as a way to keep in touch with other people's ideas in real-time.

With increasingly sophisticated technologies, will we need an alternative to conventional technical analysis or are its basic tenets valid for the future?

No, I think technical (and fundamental!) analysis still has its place, and always will. New technologies will not replace the need for them, they will simply change how fast and efficiently we can share it with a wider audience. The faster you receive the data, the more actionable it is. And any trader who simply relies on other people's signals but doesn't himself understand how or why those signals were generated is at a severe disadvantage. You might have an entry price and target, but what you lack is the context. Are there any exceptions when you shouldn't enter, even if the entry price is reached? How do you know if you need to exit early, ahead of the intended target, if some new piece of news hits the market? What about the best times to trail your stop, to protect your profits, or perhaps scale into the position further in order to maximise them?

Since we are talking about the future: it may seem that traders spend lots of time and resources trying to predict the future. In many aspects, that future seems now very uncertain.

I think this is precisely where many traders fail. They are trying to predict the future. None of us have a crystal ball, myself included. Successful, consistent trading is not about knowing the future. Rather, it is about knowing the next step,

the next chunk to go after and safely take out of the markets. Each step then leads to the next.

And, when it doesn't, it is best to stand aside and wait for more information. I attribute my own success to the ability to analyse broad, long-term scenarios, and then carve out the smaller tradable opportunities within them.

Once I establish the likely potential scenarios, I then set up conditional tests to activate one versus another. From there, I simply sit back and watch – and let the markets tell me which of those scenarios to act upon. I don't try to predict; I'm generally ready with both an upside and a downside scenario, complete with entry triggers, stops, and targets.

It is much like what a scientist does – first you need a theory, and then you must design experiments to prove one theory and disprove another.

Instead of asking you for a trade call, we would like to know what is your vision of the market in the 5 coming years.

Innovation will continue to drive the markets. We went from having to phone in our orders just a decade ago to being able to trade millions with a single click of the mouse. Now we can share our ideas with large groups of people instantly, and adjust our trades by simply dragging a line on our charts (and very soon we'll be able to touch that line with our own finger). We went from working with brokers, to working with aggregators who can shop our order to multiple liquidity providers for the best possible fill, all within a millisecond.

It is difficult to predict exactly what form the next innovations will take, but I can say with some certainty that how we trade will continue to change and evolve. These are exciting times. Someone armed with a PC and a reasonably good Internet connection has access to the same tools and data previously available only to the biggest banks and brokerage houses. The playing field has certainly become much more level. But what the independent trader and investor is often lacking is the education and experience to make the best use of these tools. That's what people like me are actively trying to change.