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Forex Visionaries – *Part Three*

In the third of its serialisation of FXstreet.com's interviews with "forex visionaries", *Profit & Loss* continues with an interview with Mark Whistler

'It is the inefficiency within markets which creates opportunity daily' - Mark Whistler

Mark Whistler is a full-time trader and author of several books on swing trading, trading psychology and volatility who investigated a lot of the sentiment and news technologies in the markets. He believes that markets and news are inefficient by nature and "the only real way information technologies will assist the masses, is to help dissect information to make it more easily understandable."

Who rules the market?

He who is able to accurately perceive a perspective of price relativity, in relation to other participants, rules the market. Foremost we must ask, "What is price at the most fundamental level?" In essence, price is a man-made perception of current and future value, opportunity, and/or risk. Unlike items of nature, price cannot exist without people. *Price esse is percepti* (to be is to be perceived.)

What then is value?

Value is the perceived worth (in monetary terms) of any particular item, at any particular point in time. However, value is really nothing more than a man-made perception in and of itself, built upon another set of man-made theories and equations attempting to measure perceived worth, ultimately quantified by a current or future amount of currency (again, nothing more than a perception of a perception). All of which, dynamically and never-endingly fluctuates via the most recent perception (price) within markets each day.

Does perception always lead the trader to wrong decisions?

The problem is that the average retail trader most often attempts to measure opportunity or risk within all of the above, via another set of man made tools (for example technical analysis), which are really nothing more than another set of abstract perceptions tacked on top.

Furthermore, much like the true and accurate professional and academic calculation, context of value is relative only to perspective; retail technical traders who are not able to perceive price relativity beyond blind faith in the lines on their charts, are doomed to failure. We begin to see that the true cycle (for the technical trader who believes the abstract deterministic pattern matcher he downloaded this week – is pure truth) falls into a never-ending succession of guesses he calls trades.

At the end of the day, it is price that catches the deterministic trader who refuses to look beyond his red line crosses, blue line perceptions (mindless abstract technicals), which are nothing more than a derivative of another perception (price), chasing a whole other set of perceptions (value and fundamentals), all influenced by another final set of perceptions: the unmanageable expectations of most market participants. All of which comes down to whether he perceives greed or fear from his/her flavor-of-the-week gimmick.

If all is perception, what can the trader trust and base his activity upon?

The solution is to merely understand that what you are using to perceive opportunity and/or risk is/are really nothing more than a broken set of perceptions, built upon even more perceptions, and are only relative to perspective. He who rules the market is he who understands price relativity, and is able to align or separate his perspective with/from the unmanageable expectations of other market participants. Thus, the savvy trader begins to find they are able to effectively predict (or react to) where the most important of all perceptions (price) will be when all other anticipated or reactionary perceptions (technicals, fundamentals, value, news, and opinions) are either validated, or violated.

Do you think there is a 'Big Brother' managing the market?

Central banks influence the perception of value, opportunity, and risk. Size order flow is someone's perception of opportunity or risk somewhere – nothing more, nothing less. At times, a participant, pundit, or institution may try to influence the outcome of a particular market for a short period, but no one has total control all the time.

Then why do some people believe someone or something is in control?

Those who believe Big Brother is yanking price all over the place, specifically to take out your trade may likely also believe their phone is bugged, their Internet monitored, their car trailed, and their home photographed as well. My advice: take a vacation and relax...but they will probably be watching you there too.

In financial markets everyone wants to be a contrarian, but it requires the ability to process a lot of information very fast, doesn't it?

All trading requires processing a ton of information quickly, diligently, patiently, without bias, and without fear. Whether "contrarian trading" requires more information to be processed than any other style of trading, is up for debate. Most likely, the validity of such is in the hands of the beholder. Of important note though, unless a trade is specifically momentum based, with the trend and order flow, every other trade one makes is a contrarian trade of some capacity; the only discrepancies being distance in time to entry and total potential reversal capacity.

Do you have some examples of contrarian trades which are different from momentum based ones?

We can break down the contrarian trades into four types, and readers will note that I have excluded any mention of short-term technical reversal trading from the below list. Simple technical contrarian trading, merely for the sake of trading a reversal, is a retail strategy – and don't forget 95% of retail traders lose. The short-term technical reversal trader who is not trading with larger concepts and information regarding order flow, is trading a losing game over the long haul.

The four types of contrarian trades are Pullback Entry; Mean Reversion; Paradigm Shift and the Constant Contrarian (descriptions can be found on the FX Street website).

Will information technology innovations make the markets more efficient?

Foremost, markets, news and information are not and never will be efficient. It is precisely the inefficiency within markets (the difference in speed, perception, and understanding), which creates opportunity daily. If markets and information were perfectly efficient, "trading" as we know it would cease to exist.

The critical conclusion to your question is no. Information technologies will continue to help deliver information promptly, and in new and innovative formats that allow more people to understand the information with greater veracity. However, at the end of the day, markets overall will not become more efficient, as the truth of the matter is the larger bulk of market participants are lazy, inefficient, egotistical, biased, and credulous. As information technology helps clarify information quicker for the masses, markets may lose some post-event volatility, but overall, will definitely not become "more efficient." There will always be those who will examine all aspects of trading, information, and markets, without being hard-set in one particular line of dogma, who will always be ahead of the curve.

At the end of the day, the only real way information technologies will assist the masses, is to help dissect information to make it more easily understandable to those who either do not fully grasp it in the first place, or are not willing to learn the "fundamentals" of the acquisition, construction, motivation, delivery, and impact of the raw data/news in and of itself. Regardless though, those who are using information technology to help decipher the real news at hand, will always be at the mercy of the accuracy, bias, and motivation behind whatever information technology is aiding in the translation...

How will technology be used to spot for sentiment in the financial markets in the future?

While I cannot divulge details, I do know there are people (significant hedge funds and institutions) already at work within markets currently developing (and implementing) insanely amazing algorithms to decipher semantic inferences of sentiment within raw data, news, markets, economics, and politics. While not available to the general public today, within several years I believe others will develop tools of equal merit and deploy them within mainstream media.

In addition, I believe tools such as evolving social media, news-based, and Internet related trader sentiment tools will continue to gain strength. Finally, with the rise of technology assisting data crunchers of the world unearth more accurate sentiment within markets, older more archaic gauges of Sentiment like the Reuter's/University of Michigan Consumer Sentiment Report will become obsolete. And good riddance too. Would you prefer a gauge of sentiment taking into account thousands of pieces of real time data via the Internet of a weekly phone survey of 500 people in America? (Yes, that is only 10 people per state.) The bottom line is, when technology-based-data-sentiment finally collides with effective processes to ensure efficacy and reliability, technology-based sentiment tools will win out.

Do you think Google Trends is a reliable indicator to measure sentiment? Would you recommend forex traders to use it as an analytical tool to make better decisions?

I've thoroughly tested many Google Trends methodologies (with real money in real time – not just back-tested curve fitted academic theory and data in a glass box) trading Forex markets. If you can make it work over the long haul you are smarter than I am. Google Trends does not provide enough accurate and detailed data – and I believe Google knows it. In the present form, Google Trends gives no more edge than the Reuter's/University of Michigan Consumer Sentiment Report, the nightly news, or the mailman.

Do you see tools that gathers realtime news from traders, for example TweetTrader, truly useful or can they lead to confusion and misleading interpretations?

Before the Internet – or at least in the current form – there were squawk boxes, which were/are basically intercoms on the major floors. The broadcaster would chatter out what was moving at any particular moment, relay news that had hit the floor moments ago, alert traders to some sort of "imbalance" (meaning something moving, when it shouldn't), and of course, sputter out rumours.

The Tweettraders of the world are exactly the same thing, except every retail Joe has access to it. In essence, we're talking about a modern day Internet boom, penny stock, pump and dump board, except that it looks a little different, and it's been coded with a RSS feed with a fancy call feature.

But it's still the same thing. For those who would like to use Tweettrader and other similar tools, my only recommendation is keep yourself grounded. Remember everyone has an

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agenda to post anything and everything. No one is posting, just to post. They are posting because they want something to go up, or down, or because they want to appease their ego, or build their business somehow related to markets.

So would you advise traders against those tools?

Here's how I would recommend using services like Tweettrader. What we used squawks for was NOT to listen for specific detailed information, and certainly NOT for hot tips, rather, to listen to the noise on the floor, or in the case of Tweettrader in the market.
Both on off-floor floors and on the floor of the options exchange we had squawks of other off-floor floors, and other exchange floors (of all types). The point being: squawks were not only used to determine if noise is picking up, but where the noise is coming from – because sometimes it does matter to help determine why noise is picking up. In the Tweettraders of the world, the where will never likely be accurately available, unless every user is correctly geo-located, which is not going to happen anytime soon.
When all things are calm – trade the plan. But when noise picks up, get your head up, start checking everywhere and figure out what's going on. Do NOT depend on the last post you just witnessed. We did not depend on the squawk for the final verdict of news, as to what was making markets move, but rather used the pickup in noise as a "tip-off" to momentum, or volatility starting to accelerate.
Use Tweettrader as doorbell alerting you to noise, but please use any-and-all similar services with a grain of salt, remembering that every poster has an agenda; look beyond the hype and listen for the "noise." As last words of advice, I would like to quote Mike McDermott from the movie Rounders, "If you can't spot the sucker in the first half hour at the table, then you ARE the sucker."

Do you believe that access to the sentiment information is just the Sword of Damocles that will make the "sell the rumour, buy the news" tendency more dangerous?

I do not believe information or trading in any way produces a sword hanging over our heads by a horsehair, unless one is buying and selling based on rumors and rumors alone. Perspicacity via data, information, analysis, experience, know-how, and intuition is different from merely trading rumors, hunches, broad sentiment, tips, Internet opinions of faceless egos, dogma, biased pundits, slanted media, political rhetoric, or "pro" analysis.
I would like to relay a short excerpt from the novel "*The Art of Racing in the Rain*", by Garth Stein:
"Drivers are afraid of the rain," Denny told us. "Rain amplifies your mistakes, and water on the track can make your car handle unpredictably. When something unpredictable happens you have to react to it; if you're reacting at speed, you're reacting too late. And so you should be afraid."
"I'm afraid just watching it," Eve said.
"If I intentionally make the car do something, then I can predict what it's going to do. In other words, it's only unpredictable if I'm not…possessing…it."
"So you spin the car before the car spins itself?" she asked.
"That's it! If I initiate the action – if I get the car a little loose – then I know it's going to happen before it happens. Then I can react to it before even the car knows it's happening."
The moral of the story: For traders who act upon the rumour the car is going to spin loose. Traders who initiate the spin themselves will likely produce better results.

What are the most powerful tools to create and/or change market sentiment?

M o n e y
Contrary to the generalised belief that money is a store of value, we see currencies fluctuating in value pretty much like a commodity. Could you explain the relationship between value and price of currencies?
Let's start with the US Dollar.What is the greenback? In essence, it is a trade-weighted "fiat" currency, constructed out of the value of nearly 20 other currencies, backed in "full faith" by the US Government. Until 1971-1972, the US Dollar was an "Index Basket" based on six major currencies from global powers around the world, constructed using an arithmetic mean. With the absolution of Bretton Woods, the dollar was then moved into a Trade Weighted Basket, and from then onward, constructed using a Geometric Mean.
Why? Because a Geometric Mean artificially lowers the value of the currency over time. Which is exactly what has happened to the US Dollar ever since Bretton Woods was kicked to the curb. While the United States constantly gripes about China artificially devaluing its currency, perhaps it should look at the way our currency was covertly "remanufactured" for devaluation over time, but in a way that would look as if "the market" was/is the provocateur of such. Talk about the kettle calling the pot black.
Anyway, we understand currency is constructed in various different ways, and backed by commodities, or other currencies, or faith. Nevertheless, the substance making up the currency and the method in which such is calculated all influence the "value" of the currency over the long haul. Tack on economics and politics, and you're in for a ride.
Moreover, as I have already mentioned before, value is a perception. The short-term wiggles, however, the volatility, is pure perception.

What instruments and markets will attract capital in the next years and why?

Equity leveraged technology bubble and ETFs could both build up, and then help tear down markets sometime in the coming decade. Why? Greed and Karma.
Commodity derivative backed currencies beware. Why? Joss, (Editor's note: Joss is Chinese for "fate") and planning.
But, you know, I'm not saying anything for certain, as anything can happen and everything changes all the time. The only prediction I can make with absolute 100% certainty is: expect change. ■