

Forex Cadet Flight Simulator & Take Off!

As a cadet you have now been walked through the foundations and fundamentals of the plane flight;

- firstly looking at the machine itself and its benefits (the Forex market and its key features);
- then the Flight Plan (Trading Plan) and all the components of systems and procedures that work simultaneously striving for a successful and safe flight (profitable trade);
- the aeroplane hangar (the Traders tool box) – the amazing and sophisticated engines and equipment, plus the instruments giving powerful insight into conditions ahead;
- then the Pilot's training and ability to handle a massive amount of emotional pressure through various and sudden changing conditions (the trader remaining emotionally stable manoeuvring through various market conditions);
- flight safety and contingency plan (a traders risk management rules) – identifying any potential worst case scenarios and giving them pre-planned actions to take should these situations arise;
- and cadets had their eyes opened when realising planes don't need wings to fly (and traders can profit from falling prices).

So what now? How do we bring this information together? How does the cadet fly the plane and the trader trade the markets?

Just like any cadet is taken through flight simulators before being allowed to leave the ground with an aircraft, so too should a trader go through a similar simulation phase.

Back Testing and Forward Testing (Flight Simulator)

These two process are brilliant learning tools that serve a few purposes; not only do traders gain valuable practice at applying their trading plan rules without putting real money on the line, but at the same time are internalising the information so that it almost becomes second nature.

Back Testing is the process of applying your trading plan rules back over historical data. The brilliance of this is that you can ‘experience’ various market conditions (bull, bear and sideways markets) over a shorter time frame (hours), which in reality would have taken months and years to form.

Traders can gain a ‘feel’ for how their system fairs over these different times by documenting their results.

I am sure many people are thinking “well if you can see that the market is going up, of course you would place a trade and make money”. The answer to this is, although you can see where the market is forming in front of you as you move through history, you can’t ‘fudge’ that your entry or exit signals have all been positive.

Trading rules are very exact, and the charts either display these rules as being fulfilled or they don't. Sometimes the market goes up but your entry rules have not been fulfilled – so you can’t enter. You will never be able to enter on every perfect move.

The downfalls of Back Testing is that it is impossible to factor in things like ‘slippage’ and ‘gapping’ which are idiosyncrasies of the financial markets, so the final results of your back testing are not necessarily a true indicator of real live trading.

Forward Testing is the where the trader applies their trading rules to live markets. This is the truest simulation you can find of live trading without putting real money down. Most of the Forex Brokers provide traders with ‘Demo Trading Accounts’ that they can use for a period of time, and their account holders have access to their demo account all the time (so can go back to it to test various new strategies).

The Forex Flight Zone

The downfall of trading the live market is that it takes a lot longer to internalise the information. If your trading plan is based upon a weekly time frame, you need to wait a whole week until you get the opportunity to make a decision, and if there is nothing to do that week then you need to wait a whole week until you get the opportunity again.

This causes traders to become impatient and either skip the process, or become distracted by other things in their life, and fail to regularly monitor their positions or the market.

Although these two processes are invaluable, a trader needs to understand that it is the impact of their emotions and their ability to control them which will determine their final results, (each trader will only ever be able to truly appreciate the concept once they have traded the live markets with real money).

Things become very, very different when we have our hard earned money on the line – all of a sudden our Trading Rules go out the window and people react based upon emotion. It is for this very reason that there is such a small percentage of traders who are consistently successful – they have the hard and fast discipline to follow the rules.

As mentioned earlier, one of the most important things gained from back and forward testing is the internalising of the sequences of processes and procedures. This will ensure your reactions to the markets movements will become automatic. Just like when driving a car. When you first learned, it would have felt awkward - and even just a couple of cars on the road would have felt overwhelming and confusing – it felt there were so many things to think about.

But now, we hardly notice all the other cars, even in peak hour traffic, and can drive almost without thinking through various obstacles and weather conditions. When you really look at it, driving is a feat within itself. This is all possible because we have 'internalised' the information. It has been programmed into our minds at a subconscious rather than conscious level.

Back testing should be conducted over a minimum 4 year period and ensure that this time frame covers as many types of market conditions that you can.

When forward testing, you can do so just simply via watching the live market and recording your entry and exit points, plus workings of your money and risk management. (This should be performed for a minimum of 3 months).

The Forex Flight Zone

However, I think it is preferable to open a Demo Account as you will be using a live trading platform, and this itself throws new dynamics in front of the trader to deal with. These all have an effect upon the success of the trade, so better to get used to the platform before you use your precious trading capital.

Flying Cadets always have an experienced pilot with them on their flights whilst they clock up their hours. A trader should follow this lead too and find an experienced trading mentor to check and monitor their performance. It is too easy for a novice to 'forget' or 'overlook' critical functions.

Joining trading clubs is good to assist you gaining valuable knowledge, however, take heed of this warning;

Listening to other traders opinions can be detrimental to your trading success.

The reasons are;

- If they have a different trading plan than yours, they will be likely to sway you against your trading plan rules.
- They may be trading a completely different time frame so what is relevant to their time frame may not matter to yours;
- People's perceptions of events vary enormously. So they are likely to interpreting information very differently, even if they are trading the same trading plan.
- Their emotional control may be very different to you, and also other unrelated issues within their lives will be swaying their decisions.

It is so important to take the time to do things in the correct manner when trading the financial markets – never get impatient and think you will miss out if you don't hurry up and get in.

The market will always be there, take the time to educate yourself properly and practise the information and prove to yourself first that your system works, and that you understand it completely, without putting real money on the line.

Q&A – Questions

QUESTION & ANSWER SECTION

		Answers
Question 1:	Does back testing use real money?	
Question 2:	Does forward testing use real money?	
Question 3:	Back testing fails to simulate real time market 'gapping' and	
Question 4:	One of the best features of back testing and forward testing is the ability to internalise the strategies. True or False?	
Question 5:	How many years should you apply your back testing to?	
Question 6:	A downfall is that forward testing only tests the current market conditions. True or False?	
Question 7:	Traders should at least forward test for?	
Question 8:	Traders do not need a coach or a guide. True or False?	
Question 9:	Traders need to educate themselves and prove to themselves that their system works. True or False	
Question 10:	Trading groups can be detrimental due to so many other traders _____ and perceptions.	

Q&A – Answers

QUESTION & ANSWER SECTION

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Question 1:	Does back testing use real money?	No
Question 2:	Does forward testing use real money?	No
Question 3:	Back testing fails to simulate real time market ‘gapping’ and	‘slippage’
Question 4:	One of the best features of back testing and forward testing is the ability to internalise the strategies. True or False?	True
Question 5:	How many years should you apply your back testing to?	4 years
Question 6:	A downfall is that forward testing only tests the current market conditions. True or False?	True
Question 7:	Traders should at least forward test for?	3 months
Question 8:	Traders do not need a coach or a guide. True or False?	False
Question 9:	Traders need to educate themselves and prove to themselves that their system works. True or False	True
Question 10:	Trading groups can be detrimental due to so many other traders _____ and perceptions.	opinions