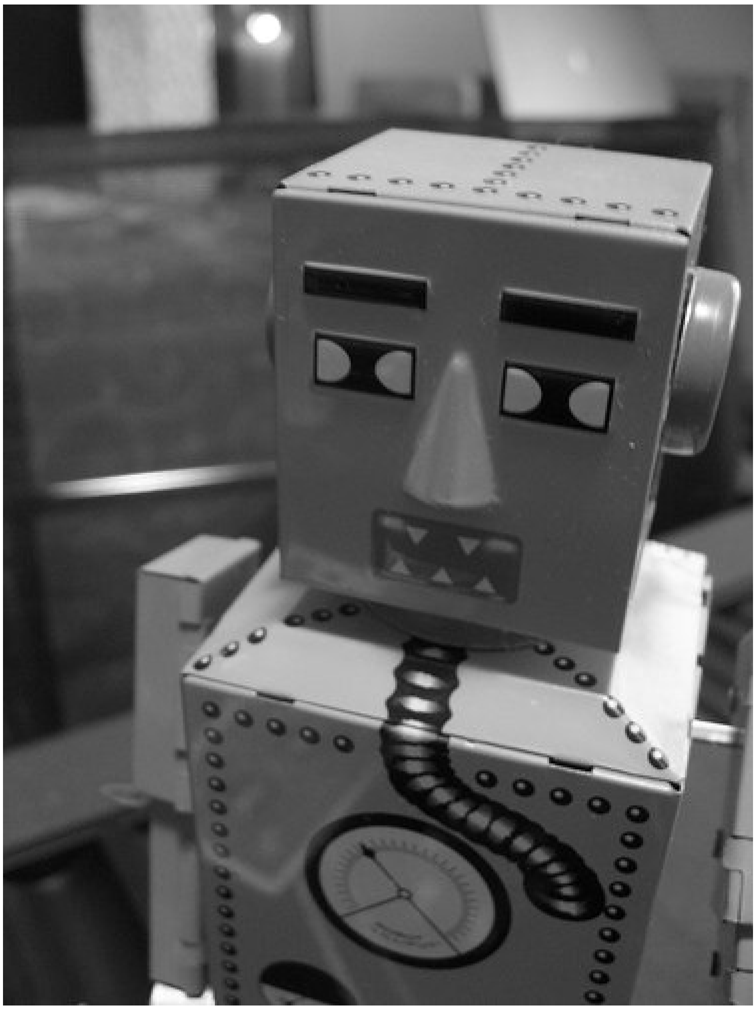
My Trading Robot and Me



This guy can definitely trade.

Many traders have become aware of trading robots, also known as expert advisors, or "EAs." Expert advisor are wonderful tools and they can add significant profits to your bottom line. Soon after learning about EAs most traders have probably had a thought similar to this:

"Hey, why don't I just get a really smart robot to take my trades for me. This way I can kick back and just collect money for the rest of my life, and enjoy my life."

In theory this should work. By deciding to a robot, with no emotions, trade for you, you have removed yourself from the equation. You have allowed a profitable trading system to take over. In practice, however, it usually does not work this way, and the reason why may surprise you. EAs are often misunderstood, and traders who use EAs should aware of the following myths associated with trading robots:

1. The Expert Advisor will make money for you.

The EA may decide when to buy and when to sell for you, but you, the trader will ultimately decide on the most important aspects of trading the EA, just as you would with any discretionary trading system. You, the trader, will decide when to turn the EA on, when to turn it off and decide how much to risk on each trade. Ultimately, you will determine how effectively the EA will trade your account.

In a sense, an EA is really no different than a discretionary trading system because you, the trader will determine when the EA works for you and when the EA is not working for you. Here's the important point: *The more you manage the EA, the more similar to a discretionary trading system the EA becomes.* This makes a whole lot of sense, when you think about it, if you are constantly managing the EA by turning it on and off you are essentially deciding when the EA's trading signals are "good" and when they are not so good. Too much management of the EA will mean that you are essentially discounting the true value of the EA, which is to remove you, the trader, from the equation.

Trading robots can make your life easier,
but unfortunately for them - they have to trade all of the time.

2. If I make money with this EA you will also make money with the same EA.

Again, the most important and unpredictable ingredient in any trading system is the human involved with that trading system. For example, if Trader Ed and Trader Rebecca both have the same EA, Trader Ed may decide to risk 5% of his account on each trade and he turns off the EA during important economic news reports. Trader Rebecca, on the other hand, decides to use much lower leverage and she keeps the EA turned on all of the time. Maybe Trader Ed turns the EA off after 3 losing trades in a row, but Trader Rebecca will only turn off the EA if the drawdown exceeds 20%.
It is not a bad thing that Trader Ed and Trader Rebecca have decided to trade the same EA differently, but this is certainly one of the reasons why two traders can trade the exact same EA and get vastly different results. In fact, for one trade the EA can mean big profits over an extended time period, and for another trader the EA may simply blow up the trader's account.

An EA may change *how* your account is traded, but the most important ingredients in trading will always be money management and trader psychology. Both of these factors are under your control, regardless of whether you choose to have an EA or a human trade your account.

Trading robots need hugs too.

3. Trading with an EA will remove emotion from trading.

One of the attractive features of an EA is that it allows you, the trader, to take a step back. Many traders believe that an EA will allow emotion-free trading. This is true only if you are able to allow the EA to trade without watching the trades unfold. Once you see the gains and losses that the EA makes, you are going to experience the same ups and downs, just as a discretionary trader would, only you may have a feeling of less control. The discretionary trader has the advantage of knowing where the decisions to buy and sell are coming from, but the EA trader must trust the EA's decision making.

Unfortunately, any trader who withstands a drawdown will experience negative emotions, just as you may experience a good deal of joy after a good run of profitable trades. The difference between the discretionary trader and the trader who uses an EA is that the discretionary trader acknowledges up front that trading decisions are emotionally charged, and there will be tough times and there will be happy times. Many traders who adoptee EAs fail to recognize that the very same emotions that correspond to ups and downs in the equity curve are going to be experienced by both EA traders and discretionary traders.

One of the best ways to maximize the advantages of trading with an EA is to let the EA trade and to get out of the way. You may have to decide on some basic rules such as:

Will you turn the EA off during important economic news announcements?

Do you have a drawdown amount that will trigger a suspension of the EA?

Will you increase the amount traded to maintain the same percentage risk as the EA increases the size of the account?

Deciding on your rules at the outset, and sticking to these rules may be the best way to accentuate the advantages of EA trading.

Personally, if I had to choose between an excellent expert advisor and an excellent discretionary trader, I would pick the human, every time. However, EAs certainly have their place in the trader's toolbox, and many traders use them successfully.

FXjake

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There are some pretty good EAs out there (FX Profit Mountain is one), but I think you can do better than any automated system by simply learning a few simple trading systems, sound money management and a few techniques for controlling your emotions. If this sounds like something you would like to do, you may be interested in my Personal Trading program. I work with a few traders, so if you are willing to work hard at becoming a profitable trader, I may be able to help. I can also give you a lot of free stuff. I have trading spreadsheets, ebooks and generally I just like to talk to other traders. It can get lonely trading for a living and that is why I would love to hear from you. You may email me:

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