The Flow of the Markets

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Imagine yourself flowing down a river, only you don't know that you are. You do, however, notice that when you move in one direction, with the flow of the river, you move rapidly. When you move in another direction, against the river, you move slowly or not at all. In fact, when you go in that direction, you seem to put out a lot more effort just to stay in place. Your life becomes a struggle. It just seems to push you in another direction. Feeling miserable, you fight against it. But it doesn't help. You still seem to move only in one direction—with the flow of the river.

Most people prefer to struggle against the river. They try everything they can think of to go upstream. All solutions like this—going against the flow—have the same result: frustration. If you were in the river, what could you do to make your life easier? One solution would be to get out of the river. But that would be giving up. There is only one easy solution—to acknowledge or accept that the problem has nothing to do with the river. The river just is. And it moves downstream and nothing you do can change that. When you realize that the problem stems from you, then the solution becomes obvious - just relax and flow with the river.

Buy High, Sell Low?

One of the oldest adages in market psychology is "Don't be afraid to buy high and sell low." Let's analyze what that means. If the market price is high, then the market is moving up. Those who are afraid to buy because the market is too high are fighting the flow of the river. It is possible the river may change direction, but you cannot predict if it will by determining how long it has been flowing in a particular direction. It may continue in the same direction for an unspecified length of time. Then again, if the market price is down, it also indicates the direction of the flow of the river. Those who are afraid to sell, once again, are fighting the flow.

Whether you go with the flow of the market or struggle against it, the market will continue to flow, taking you with it one way or another.

Why do traders resist the flow of the markets? They do so because they play psychological games with the market. The most common game involves not being willing to give up what you perceive to be control, the need to be right, although you have no control over the market flow.

When you are struggling with the market, the struggle becomes all consuming. You don't realize that you are struggling with the market. Instead, you find yourself always looking for some solution to overcome the struggle. The struggle obscures the obvious solution: Letting go.

For example, suppose you have a tendency to be in a perpetual market bear, always expecting the market to go down. For you, every little turn in the market is evidence that the market is turning. As a result, you always go short and consequently, take a beating. You repeat the process, over and over, until the market actually turns down. With each transaction the struggle against the flow of the market intensifies for you.

Even worse is the trader who refuses to accept the inevitability of eventual loss. The market moves against each position the trader takes, but he refuses to go with the flow and refuses to accept the loss, no matter how small. It is an affront to the trader's ego. As a result, he refuses to accept it and the loss becomes larger. The bigger loss is even harder to take and the trader again refuses to accept it. The struggle continues until the loss becomes so overwhelmingly large that the trader has no choice but to take the loss.

The solution to the problem of resisting market flow is to realize that the problem has nothing to do with the market. The problem stems from you, the trader. The market is not going against you personally. The market is simply moving. Whether you go with the flow of the market or struggle against it, the market will continue to flow, taking you with it one way or another. Market flow is bigger than any individual trader. The question is whether you realize how you are creating your struggle against the market. When you push against the market, the market seems to push back. But the market is not the problem.

The trader's struggle with the market is the problem.