

Let's talk about SENTIMENT

By Glyn Williams (Soultrader)

Traders often ask about how I trade the markets. Often I take trades that appear alien to you because it's against the prevailing trend, and sometimes it seems I'm selling at the bottom or buying at the top - so what's it all about?

My trading style is based on pure price action and **retail sentiment**

Sentiment isn't everything in my strategy, but it does play a significant part.

Firstly let's look how I first came across the idea of sentiment – for that you need a bit of a history lesson.

I've been trading for many years now, I began in 2002 trading the DJI and moved over to Forex in 04/05 (ish, can't really remember now) to give you some kind of scale as to how long ago it was, the Dow Jones had not even reached 10,000 yet, in fact it happened for the first time when I was trading it back then.

When I moved onto forex, I, along with around six other traders developed a very successful London breakout system which we called grail. I actually wrote a book about it (Grailtrading by James Windsor on amazon) because we blew up after a 1000% year! - But that's another story for another day.

One day the guys from the broker we were using called me up and said "can we take you to lunch" - bearing in mind they were in London and I was in Derby it was quite an invitation.

I accepted the invite and they came up on the train and we went to a local golf club for lunch - their choice was going to be a local massage parlour but being a good husband I convinced them to take us to the golf club.

The reason for the lunch was to find out if we had found a way of beating the spread. We were doing very well at around 20% a month on average and with constant results we were visible to them.

During our lunch I asked the question that we all ask - "how many people actually make money month after month for at least a year" - they were a bit cagey to begin with, but after a few beers and giggles they let slip that around 95% of traders lost money over a year and 70% over any 3 month period.

Just let that sink in a moment. 5% make money.

So over a year only 5% of traders make money. Here's the kicker, out of those 5% less than 2% made enough money to make it worthwhile. Some of that 2% were wildly successful and some made the equivalent of minimum wage.

So, if you are a forward thinker like me you are probably racing ahead like I was. It got me thinking that if we knew where the retail crowd was, then betting against them would be a no brainer.

Back in 2004/5 this data was not available... but it is now and has been for some time

I have studied sentiment for around the last 18 months. But before you go headlong into "I gotta trade against retail" let me tell you that after studying for ages - it's not that easy.

First of all, if retail were wrong all the time, then they wouldn't be around for long before quitting right? - You gotta give them some corn or they go do something else, and that's not good if you want their money.

Secondly, even when they are wrong - you've still got to get a trade in and out yourself, so where do you buy and sell?

Trading sentiment is an art form. You have still got to have a trader's mindset, you still have to protect capital, and you still need a system to trade.

This is the first in a series of articles posts on here telling the story of how I trade and I'll give you little parts of the puzzle as we go along.

Sentiment is part one.

Whilst learning about sentiment I found out that there now are a ton of sources for the data - Oanda publish some, Myfxbook do some, IG index,

Saxo Bank, Psyquation - in fact there are lots and lots. Chances are that somewhere in the back of your broker this information is available.

The bad news is that not all data is equal. Some data is pure trash - like myfxbook. Some is close to the mark, but there's not enough of it, like Oanda with its 14 pairs that it publishes.

To start with I collated them all into a spreadsheet to spit out an average - more data = better results right? Well not exactly, add poor data to good data and you still end up with poor data.

So after about 6 months of this I found that the best data could be got from IG index. They're the worlds biggest and are set to become even bigger as they go stateside soon.

The data I use is from IG - and you can see it for yourself because it's published every day from my spreadsheet onto a webpage. – Here's the link <https://rebrand.ly/retail4x>

That sheet is published from my own spreadsheet – my spreadsheet scrapes data from IG on all the major currencies plus gold. It checks for changes every 30 minutes and the page you see is also updated every 30 mins. If you are in any doubt then there is a timestamp on the top row.

So, what you need to do now is go and look at the sentiment numbers. The first few columns are what the sentiment is right now and they show what the percentages are of retail positions long or short as a percentage – so if GBPUSD is 80% Long then it stands to reason that they are 20% short – understood?

The next six columns show only long percentages for the past 5 days and what the percentage was at rollover (rollover is 5pm EST/ 10pm UK)

There's a reason they are converted into only long percentages and it's really to do with space on the sheet and making it easy to read.

So here's my little tip #1 into looking into my head - go look at my data and then look at the live charts. Tell me what you see and what you discover and more importantly where things seem to go wrong with the 'go against retail' methodology.

We will look at this for a week or so until you get this into your head. You'll have to study the data quite a bit.

I'm open to questions in the forum post where this document was posted. If I get questions and see interest from you then I'll continue this series, if I don't then I'll just let it drop and keep on trading to myself.

I am pretty successful with my strategy – no-one wins all the time and my win/loss rate is actually pretty low. But I make money.

In future documents like this I'll expand on my trading methodology but for now, let's see how you get on with sentiment.

Just remember though, sentiment isn't everything, it's just a part of the puzzle