## Thinking in Probabilities

*God does not play dice with the universe.*
—Albert Einstein

Or does he? So far we have been discussing things related to the market itself, such as how the market is structured, how the order flow moves from imbalance to balance and back to imbalance, and the fact that there will always be net winners and net losers inside the market.

We have touched on how the group dynamics of thought and action play out within specific time frames, and we are about to draw all this together into a deeper understanding of how to get better positioned for a change in price. In other words, we are about to learn how to make sense of what is happening outside of you, the individual participant.

This chapter is devoted entirely to you, the individual trader, because without understanding how you come to conclusions, you won't see things differently than losers do when they participate. A large part of understanding how you think before placing yourself at risk concerns thinking in probabilities.

This is a lot deeper than the surface agreement that says: Yes, I know nothing is for certain in the markets. This chapter is about learning to view what is happening in the market from a completely different viewpoint than typical market participants. You will need to dig deeper into your thinking as time goes on because whether you can see it now or not, you likely have a lot of conflict in your thinking that prevents you from gaining the best insights from your analysis.

This is true even if you are learning to use multiple time frames well to uncover where time compression is creating a change in the order flow. This chapter is about what is happening *inside* of you, the individual participant. Inside you, you can deal in probabilities within the eventual certainty of the order flow. Order comes from chaos, according to my friends in the businessof particle physics.

Earlier, we discussed the relationship between *observation* and *evaluation.* Losing traders are always trying to answer the questions
*What does this mean, and what do I do to profit?* when doing their analysis. In other words, they're making an evaluation.

Winning traders are more concerned with fully understanding *what is happening* rather than trying to answer the questions *What does this mean, and what do I do to profit?* Winning traders already know with complete certainty that a change in price one way or the other way is coming.

They are trying to find the best time/price relationship they can to go against what is most likely the last group of potential losers entering the market.

In this process, it is critical to understand that winners are not *evaluating* things in the same way as losers are. Winners are using their understanding of the market structure, the fact that losers are in there somewhere, prices can't go one way forever, their understanding of human nature as it is disclosed when speculating, and how they see things personally to come to a deductive place in their reasoning that answers a different question:

*What is more likely moving forward?*

Winning traders don't need to answer *What does this mean, and what do I do to profit?* because they understand and accept that speculation is a game of unknowns until prices actually move. In fact, the more winners understand the concept of order-flow change, the less analysis they need to do. If the market runs out of buyers, then a reversal lower is certain. What analysis needs to be done? You make money in a declining market by being short.

Once prices start moving, winners are interested in asking different questions either to maintain a winning position or find one. They are not trying to figure out where prices will go next because they know that once prices are moving—no matter where they go— they will draw in other traders who will eventually be on the wrong side.

If prices reach a significant level quickly, that only means there was a deeper urge to action to get positioned quickly—an urge that is likely fear, greed, or hope. Winners want to answer the question *Will that continue or will that change?* thereby creating an opportunity that includes one of the 12 choices to participate. The questions winners ask are different from the questions losers ask; therefore, they create opportunity differently.

## ASKING BETTER QUESTIONS

The basis of developing a thinking method grounded in probabilities rather than certainties is the art of asking the right questions when developing your trading presence. By asking open-ended questions that help you discern things like market structure, order flow, and where the losers will be forced to liquidate, you place yourself in a position to see and observe what is happening rather than trying to answer the question *Where will prices go?*

Let's look again at how losers are attempting to participate. For the most part, losers are focusing on things *outside* themselves to answer the various questions that are grounded in evaluation. Here are some typical loser questions that I have discovered:

"What does this price change mean?"
"Which way will the market go?"
"Where should I take profits?"
"What is the news?"
"When will the price rise/fall?"
"How do I do better analysis?"
"Am I missing anything?"
"Who can I trust to get me better data?"

If you think through the psychology of these questions, you will see that they center on things that are perceived to be outside the control of traders. They are very much centered on underlying thoughts that focus on gaining a sense of certainty about how to participate.

Those sorts of questions show that traders are more concerned with finding a winning trade than understanding what created the market in the first place. If you add on top of this sort of thinking the additional illusion that technical analysis will answer the question

*Which way will the market go?* you can begin to see why trading is so difficult for most people.

*Most traders want to find a higher degree of certainty about what* they are doing, and they believe that higher degree of certainty will come from outside of themselves. They believe they need to learn more or do more to improve their results. They often are focused more on how their equity changes from day to day than on what is creating the price change they are attempting to profit from.

This is one reason why they will always wait for “confirmation” before placing a trade. They must be *certain* that a trade potential exists. Typical winning traders are more concerned with how they see things personally form the information they choose to let into their thinking.

They know that bullish and bearish information/opinion is never ending, and they don’t care which the “right” opinion is. Winners know that they can win more often if they make their goal finding the losers rather than trying to predict where the price will go. Winners watch price and what it means to other participants; they don’t care what the price is or where it goes—only that they are on the right side of the price change when it happens.

Winners often have two or three scenarios of what might happen in the market and are prepared to act on any number of plans based on what is most likely. Often this involves using multiple time frames to discern the underlying market structure, and each scenario will have a probability. Winners’ psychology is different from that of losers. The actions taken by winners are different from those taken by losers.

Winners are doing their best to think in probabilities, and they come to their conclusions from a different stream of thought than do losers. Winners are watching what is happening in an attempt to discern what is most likely to come next, based on how well they can tell what is happening now. Winners don’t want to predict prices; they want to know with as much clarity as possible what has *already happened.*

Only then can they make a reasonable guess as to what will happen next. In short, winners are outthinking losers. Trading is a thinking man’s game, not a mathematician’s game.

## DEVELOPING A PROBABILITY MIND-SET

To help you get the most from your understanding of time compression and the use of multiple time frames, here is a short list of *questions that will start you down the road to thinking in probabilities* better.

Once you have tried some of the ideas listed here, you will want to come up with a few of your own as your knowledge about the markets and yourself as a participant grows.

I have found myself asking questions I never would have thought of just a few years ago. They always help me with the complex task of reasoning out where and if a market is about to turn. Because we can never know with certainty what someone will do until they do it, these sorts of questions help with maintaining a probability-based thinking process rather than an evaluation-based one.

Who is winning, who is losing?
Where might the stops be?

Where will the loser decide to quit?
Which time frame is in control of the market now?
If I was bullish, where would I buy?
If the market fails at the monthly opening range, are the shorts more confident?
Where would I take gains if I was long from the weekly lows?
What surprise will turn the order flow? Could that be today's news?
What would high volume at the midrange tell me about the health of the long side or the short side?
What is the downside price risk if a new low trades? What if the stops are not there?
Is anything changing?

Questions of this sort will start bringing more probability thinking to the table for you. Most of the questions I ask myself are related specifically to what I think I am seeing and what I will do if I am wrong. In other words, I accept that I won't be right all the time, and I am more concerned with making sure I am not at risk when I am.

I already know that I will have a certain percentage of winning trades. My goal in using multiple time frames is to maximize that potential by finding out which of the highest time frames are controlling the market. I am looking for clues that will show me it is okay to hold the trade as long as possible until the losers have quit as the biggest group. What if that takes months?

In the final analysis, thinking in probabilities will help you avoid falling into the trap of evaluating and predicting prices. This will help *keep you focused on understanding who the losers are. That needs* to be the focus of your study because you can't win at this game unless someone else is losing.

Thinking in probabilities will help you uncover what losers are thinking and how they are behaving more often. Of course, using time compression and multiple time frames will go a long way to doing just that, but it is still critical to approach them with the right mind-set.

Otherwise, time compression and multiple time frames will become just another form of analysis rather than the potential key to understanding the complete picture of the market structure. The market structure is composed of *people who are doing things*; the price is only a reflection of that. By shifting your thinking into the *probabilities of people doing things*, you will understand how to better find the changes in the order flow.

Time compression and multiple time frames are clues to uncovering the stronger probabilities so you have to have that thinking in mind when you start.