PART I

WARRIOR HOMEWORK

CHAPTER 1

WARRIOR FUNDAMENTAL ANALYSIS

Fundamental analysis is the consideration and study of all economic and political factors that may have an impact on a particular market. For an individual stock, such a factor may be the development of a specific technology. For a currency, the fundamental factors are the more macroeconomic forces at play in the host currency economy and relative to other economies.

A great example of the power of fundamental forces and the frequent misunderstanding or, worse, excited misinterpretation of them can be found in the movements in the equity, bond, and currency markets of early 2004 that resulted from some comments made by the chairman of the U.S. Federal Reserve, Alan Greenspan. Interest rate hikes in the United States were at that time widely expected, and expected to continue through the year. Although the market was a little unsure of the amount by which they would be increased, the consensus seemed to be that rates would rise gradually. Indeed, this was what the chairman had told markets previously.

The excitement came when Chairman Greenspan made a simple remark: that if inflation turned up sharply, the U.S. central bank would have to raise rates aggressively in response. However, he also stated that this was not the expectation. The theorists and writers behind virtually all the fundamental research reports from the major investment banks and brokers around the world suddenly became excited about rates being raised "aggressively" in the United States. Equities went south at a great rate, as did bond markets, and the U.S. dollar rallied sharply. Above the din of clamoring commentaries about the intended aggressive rate hikes, I felt like a lone wolf calling out in the wilderness as I maintained that nothing had changed and these market shifts would quickly reverse. All that Chairman Greenspan had done was state the obvious. It is Central Bank Behavior 101: If inflation becomes rampant, central banks respond by raising rates aggressively.

Did the chairman expect inflation to be rampant? No, quite the contrary. Did the chairman expect to be raising rates aggressively? No. Chairman Greenspan simply stated that the Federal Reserve would respond appropriately if economic conditions were different from what they were forecast to be, which was ongoing low or benign inflation.

A few days later, Chairman Greenspan was forced to reiterate to mistakenly excited markets that inflation was not expected to be a problem and rates would most likely be raised at a measured pace. Of course, the markets did indeed reverse after this announcement. A great deal of volatility in the market and pain for the majority of traders and investors had resulted from a false perception of the true fundamental reality. It is easy to get excited and run with the herd. It is far more profitable to seek out the true fundamentals—the warrior fundamentals.

THE REAL ECONOMIC FUNDAMENTAL FORCES THAT HAVE AN IMPACT ON MARKETS

There are two important points to remember when looking at the fundamental forces that have an impact on markets. First, the real fundamental driving forces of any market are rarely described by the latest economic releases. Neither can they be comprehended though the regular diatribes of additional spin placed on them by the majority of market commentators.

Second, the economics of a country are a very different animal from the economics of a particular market, just as the economics of a company are entirely separate from the movements of its share price.

Some companies can increase sales during a slowing in the broader economy just as they can in an expanding economy. Of course, expanding sales do not necessarily mean a higher stock price. It really does get complicated. We must always remember that all pricing models for stocks, and all economic theories, are attempts to simplify what is, in reality, complex by nature. Therefore, every such theory is by definition in error. Such theories are useful as a starting point for understanding the processes in play, but should not be taken as providing the answer. This flies in the face of what we all want to believe and seek to find. It is the strength to accept the reality that contributes to the achieving of warrior trading status. Warrior traders know that almost anything can happen in a market at any time, because in truth almost no one really understands what is going on despite the detail of their analysis. In the end, of course, it is simply the movement of price of a stock and not the competence of the board that determines whether you as a trader make a profit or a loss. Understanding one does not necessarily lead to the other, despite the apparent connection.

Finding the real fundamental forces that drive any market, as opposed to what the broader market crowd perceives the fundamental forces to be, requires the warrior trader to stand back from the crowd, to keep it simple and keep it human. Sometimes basic common sense can cut through a highly technical and complex argument to the core of the real issue.

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One quick way of standing back from the crowd, of course, is to find a good, real-world, down-to-earth economist or analyst and discuss the issues in some detail—not one who sounds clever, but one who gets it right in a consistent fashion. This is, perhaps, easier said than done, however. As a general rule, economists do not publish their complete track records, and there is usually a very good reason for this. No doubt, all will lay claim to great calls of the past as they attempt to justify their economic credibility. But in truth, anyone could do this. Make enough forecasts, and you are bound to get some right.

I can similarly lay claim to some great financial market forecasts—some over many years; others over shorter periods. But these would represent just a handful of the forecasts I have made over many years. A few of my forecasts were badly wrong—although I like to think they were corrected quickly enough to prevent any significant damage. The task of predicting market movements is a subjective process, however, and if ever there was a group with subjective memory skills, it is economists. These days, I have my own independent research firm, FxMax (www.fxmax.com), and I am able to provide a quantified track record of my forecasting performance—indeed, it is a record that I see as crucial to my firm's success.

When it comes to the predictions of many banks and financial institutions, however, I believe that their motives are necessarily compromised. Even if a leading market economist with a major investment bank or institution wanted to and even if the economist's predictions had been successful in the past, it is unlikely that the bank or institution would want to risk the credibility of its brand name on the track record of the average economist. The truth is that the research produced by the major financial market economists is for marketing purposes only. The main objective of all the commentary and predictive suggestion is to get clients trading. Whether the research was correct or not does not affect the profitability of the bank or broker, as long as the research generated interest and trading activity among clients.

Figure 1.1 shows the forecasts published in the major Australian daily newspaper *The Age* as part of its economic survey, which included currency forecasts for the $US/$AUD over a 6- to 12-month period. These forecasts are collected from around 20 different banks, brokers, and financial institutions, as well as from university and economic-policy groups. What is most striking about the forecasts is their inaccuracy.

It is a similar story in all markets around the world. Markets are tough to forecast, especially if forecasts tend to be extrapolations of recent market behavior, which is in the main what they are. It is a very interesting phenomenon that the large majority of market research produced trends, on a daily, weekly, and even monthly basis, to follow the direction of the market. As I mentioned before, it is more accurate to say that research reports tend to be led by market movement rather than preempting it.

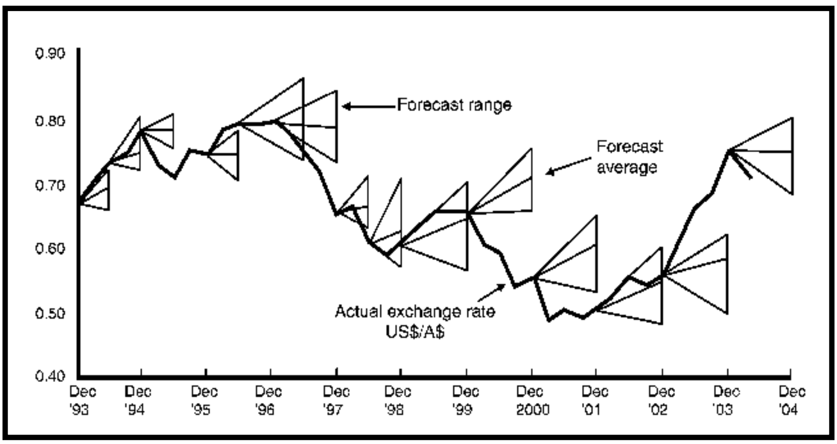

FIGURE 1.1 Currency Forecasts versus Actual (*Source:* Phillip Spry Bailey, *Mastering Foreign Exchange,* Wrightbooks, 2004.)

One standing joke among most traders and salespeople in the leading institutions is how brokerages or bank economists/strategists have a draw on either side of their desks. On one side are all the fundamental and technical reasons for a bull market. On the other side of the desk are all the fundamental and technical reasons for a bear market. Each morning as these economists/strategists sit down at their desks to write the day's market commentary, they first look to see whether the market is up or down and then reach for the appropriate draw.

Nevertheless, I believe that if you search hard for market economists who, although they are often out of line with the consensus view of their colleagues, over a period of time show a penchant for getting the market right in a regular fashion, you may just find some truly golden information and forecasts. Real-world economists who use common sense and look out the window to consider the world as it is, rather than purely focusing on textbook theories about how it should be, do exist.

However, it is not simply a matter of my suggesting the names of particularly good economists that I listen to and take notice of. As you know, my area of expertise is foreign exchange, so if I were to give you the name of an excellent French economist who understands the European economy to a very fine degree, it would not help you invest in shares on the NYSE. Even if this was your interest, it should not be assumed that you would read and interpret the same economist in the same manner as I would. Some of my clients who have been with me for a long time have come to be able to read between the lines, as it were. They can sense when I am less confident or overconfident. They can sense, perhaps before I do, that I am being stubborn about a view.

What you do need is the will to listen and read widely, and to critically analyze the forecasts of various economists and understand the motivations behind their predictions. Ultimately, this will lead you to those whose voices ring truest in the market, not those who simply talk because a journalist has asked them a question or write because a monthly review is due. Believe me, there is a lot of money to be made from picking the occasions when the consensus is utterly wrong and when the markets have to reverse direction completely. These moments often generate the more significant price movements and lasting trends. It is only real-world market economists who can alert you to such opportunities.

One of my favorite axioms and beliefs about markets is that the most money is to be made when the consensus is wrong. If you think about it, this makes perfect sense. If the consensus view is proven correct by the next batch of data, then the market will move perhaps a little further in that direction. The movement is invariably less than the market hoped for. This is because everyone who believed in that view of that market had already invested accordingly. One does not wait until after an announcement that one believes will be bullish to buy. You buy now in an attempt to get ahead of the crowd. Well, so does everyone else, and if it is the consensus view, then most market participants will have done so. What everyone doing this does not realize is that they now, like everyone else, have in fact become sellers. Their next action in the market will be to sell after the expected resultant rally. The vast majority of market participants are potential sellers, not buyers, on the good news, should it be as they expect. So when the good news comes out as expected, the level of potential buying interest is not all that great; therefore, the price may move up only a little if at all. What happens if the news is not as expected? Then all the potential sellers attempt to sell all at once. The market movement to the downside will be sudden and dramatic.

As I have said, fundamentals drive markets, there is no doubt about that, and one of those fundamentals is market positioning. We will discuss this in greater detail in a later chapter.

THE REALITY OF FUNDAMENTAL ECONOMICS

Why is economics—that is, the understanding of the real fundamentals that drive and motivate markets—such a challenge? It is because people make up both economies and companies.

"Ah, but economics is about rules, such as the law of diminishing returns, efficient market theory, and portfolio theory," you may say. Well, yes and no. Such so-called laws are merely attempts to generalize about patterns of economic activity that have arisen in the past. But people are emotional, and they also learn and evolve. Therefore, patterns of behavior alter and evolve in an organic fashion. It would require a perfect understanding of the motivation and thinking of people in today's society to make a fully accurate assessment and forecast of an economy. Rather a daunting task, I would suggest. Hence, the natural inclination to oversimplify—which is all very well as long as we recognize this process for what it is so that we can see the opportunity from a trading perspective that is then created.

Reductionist Theory and the Reality of Fundamental Economics

Today's markets are complex, to say the least. Some of the people who make up an economy are also directly involved in markets (all are indirectly involved), and the level of participation in markets is at a historical high. All participants in a market affect that market's price action, and as participation is higher than ever and patterns of behavior continue to evolve, new patterns of economic behavior and market price action are also continually emerging.

Hence, the study of one aspect of this complexity—economic activity data—is simply not enough. Economic data are historical and therefore backward looking by definition. While such data undoubtedly give clues to the likely forward path, they do not represent the future at all. As such, any analysis locked too tightly into such a perspective cannot succeed. This is why the practitioners of pure economic theory applied to the latest run of data typically have a modest forecasting record. Yet this is precisely the form of analysis that tends to dominate all media reporting on fundamental developments and drive the consensus view. Most economic models are useful in polite conversation, but they cannot compete with the cut and thrust of market realities.

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Indeed, this is not just a theoretical affliction facing the economic world. Quantum physics has demonstrated that reductionist philosophy—that is, the idea of reducing any subject of study to its smallest constituent components—is flawed. For instance, Einstein's theory of relativity works most of the time but not all of the time, and at some levels not at all. Such attempts will ultimately lead to a severe disconnect between expectations and actual events, as the reasoning deduced from the model conflicts with the reality of that future.

Let me explain. As discussed, it is people who make up the economy, not numbers. The confusion among contemporary economists on almost any aspect of any economy is due to the arguably flawed nature of current economic theory. All contemporary economists are schooled in an approach to the subject that is essentially derived from scientific method. This theory is reductionist philosophy. Essentially, this is a means of understanding whereby, when looking at competing theories or explanations for a phenomenon, it is the simplest theory that should be selected. The predominant approach to a subject is then to break it down, reduce the subject to the smallest possible components, and so derive a greater understanding of the subject and a concrete mathematical model to explain it—all in the belief that there is a model that explains what is going on. The reality of markets is that no such model exists. Scary perhaps, but true nonetheless. The warrior trader's willing acceptance of this point allows him or her to respond to fresh developments in a market away from the consensus view more rapidly than other participants, and even to prepare an attack strategy in advance.

The reductionist method is commonly used for predictions and forecasting, based on the explanations derived from prior happenings. Its emphasis is basically on a microscopic approach to understanding, looking to derive a general understanding from the features of a particular.

As the advantages of reductionist philosophy, which certainly greatly accelerated scientific advances in the initial phases, dawned on people, its use quickly spread to the humanities. However, perhaps it is now being too widely applied.

The introduction of this philosophy and methodology of explaining reality (or the *micro*) in terms of a reasoning derived from specific and largely isolated theories diverted attention away from some home truths that quantum physicists, in whose field reductionist philosophy has been used most successfully, are increasingly recognizing. In our complex market reality, all things are connected and cannot be successfully approached in isolation. This is exactly what almost all economic theories that have been taught for decades do. They focus on one particular aspect of economic or fundamental behavior in isolation. They then perceive and prove a degree of correlation with another aspect. This is not the full picture of what is going on, however, and a strict adherence to a particular economic principle will only end in market trading losses.

Further, once a subject is exposed to thought and discussion, its behavior is altered by that very analysis. Any group of human beings who begin to question themselves, in particular, why they respond in a certain way to a particular set of events is unlikely to respond in the same way in the future once the self-examination has occurred.

Such is also the case in the field of economics, and particularly so when looking at financial markets. Economic theorists striving to understand, in greater and greater detail, the various machinations of modern economies have accomplished only one thing: the sleight-of-hand skill that seemingly enables historically constructed models to follow an economy or market with such rapidity that they seem to be keeping pace with real-world developments—or even to be forward looking. This is not actually the case, however, despite the mass false impression that is achieved through the use of modern communication technology to quickly analyze and explain real-time events. Rarely does such analysis *lead* the real-time event, however—a subtle yet awakening distinction that few market participants seem to recognize.

Almost all economic analysis and market analysis of an event that is distributed to the clients of all the banks and brokerage houses the world over is actually in hindsight. It therefore can only come across to the reader as being particularly accurate and insightful in nature. These qualities impress the reader and give the individual confidence in dealing with that bank or broker when trading in these markets. In fact, it is often the case that the research produced is so perfectly formatted, presented, in-depth, and generally impressive that many clients believe it gives them an advantage over other traders and will do almost anything to get that research. Such research has its place in providing the warrior with a broad knowledge of what has occurred recently and historically, but the warrior does not make the mistake of interpreting such analysis as in any way an accurate forecast of the future. There are three main types of human creatures in banks and brokerage dealing rooms: economists/researchers, traders, and salespeople. There is one distinction the managers of such organizations never forget, unless to their peril. That is to keep researchers away from trading, and traders away from research. They are different activities. One is backward looking; one is forward looking. It is important not to confuse the two perspectives. Market *view* and *trading* are two distinct activities. This is one of the golden nuggets of wisdom possessed by warrior traders.

People and the Reality of Fundamental Economics

As mentioned, the tremendous exposure to and involvement with financial markets by everyday people—their analysis and future probability—impact the economic decisions of those very people. Whereas a decade ago a cut in interest rates would have sounded like good news to the public, simply generating Pavlov dog–like response of increased borrowing and spending, an interest rate cut today may have the entirely opposite effect. The general public may reduce spending as it is alerted to potential economic risks that lie ahead. However, interest rate increases can generate a sense that people "better get that house and car and lock in the loan rates before they go even higher." So consumption can, on occasion, actually increase after an interest rate hike. It is a complex world.

Even the physical sciences are beginning to recognize that everything is an art. $E = MC^2$? Well, almost, most of the time, but not, in fact, always, according to more recent discoveries in quantum physics. As you will learn throughout the pages of this book, any field of study that involves human beings is an art. Economies are very much about people; therefore, economics as a discipline of understanding is an art. As an art, individual interpretation naturally abounds, and therein lies the opportunity to find a valuable real-world economist in your market.

The argument about the reliability of contemporary economic thought can, in a way, be cut short by the simple recognition that even economists trained in the same school will have a different take on which way an economy or market is headed. Economics really is a very subjective art form. But to tear it down is not to contribute to the financial success of our trading, other than its value in helping us to recognize that the process is flawed and therefore may of itself create opportunities in the pricing of markets.

The Failings of Fundamental Economics

An approach to markets based on contemporary economic principles and the predictions or writings of those who follow such arguments is, therefore, unlikely to lead to any great financial success, for two main reasons:

1. The analysis provided may well be based on flawed economic principles in the first place.
2. The analysis provided is subject to, and influenced by, market movement itself. Warrior traders recognize that it is often the recent direction of the price movement that drives the tone of the fundamental research provided by the major houses, rather than the other way around, as they would have us believe.

Ultimately, objectivity is lost.

This is not to say that all market commentaries should be ignored—there are some excellent examples of winning research writers out there. You have to do some mining to find these diamonds, however. One cannot assume that just because the bank or house name is impressive and distinguished the research will be right more often than it is wrong, and good research needs to do just that and in a manner that encourages profitable trading activity. These winning research writers tend not to be mainstream, preferring instead to utilize additional principles in deriving their market view. The mainstream commentaries have value in providing a guide as to how most of the market is thinking (or will be thinking). They remain a force to be reckoned with, and, indeed, no trend will be sustained without this contributing activity—albeit, usually in the middle or toward the end of a trend, as the crowd catches up and the arguments begin to be justified and revised.

Further, there is a significant time delay between an event on the ground, such as a shift in consumer purchasing or an overrun in production, and that event becoming apparent in the released data stream. In most cases, the data can lag by three or more months. This time lag is so significant that, although surprises in economic data may already have corrected themselves at ground level, the discussions of what was happening months ago—an aberration—may still be in progress. Broad consensus views can therefore be far behind reality.

Some would argue that the current data stream is the best we have to work with and, therefore, that is how we should proceed. The problem is that the market generally has no true comprehension of this data-reality gap, and therefore makes assumptions based on data that have a far greater variability than is initially recognized. This means that if you rely on economic data for a view on an economy, or a market, you are working with dated tools.

Admittedly, this is an overly simplistic description of the enormous and deservedly respected art of economics, but it is done to make a point. There are quite capable economists out there who lift their eyes from the textbooks and data in an effort to get an understanding of what is happening in real time, but they are in the minority. It can be difficult for them to be heard. They are often shouted down by the economist masses who think of their university textbook as a bible and tend to sing in unison, thus drowning some of the more talented independent voices.

To my mind, the majority of economists are like meteorologists who don't look out the window. If they are heavily absorbed in the stream of data and charts on their desks, using proven techniques of reasonable success rates in deriving future weather patterns that enable a forecast, but they fail to look out the window as they put pen to paper, then they risk getting it very wrong indeed. If the meteorologist says, "It is going to be raining heavily for most of the day," and then you, yourself, look out to see that the skies are clear, do you grab your umbrella if you are only going for a short walk? No. Why then do so many traders staunchly follow the market forecasts of economists who are operating in an environment that is essentially art rather than science? Because most traders just read the research presented to them on a daily basis without bothering to look out the window for themselves. Warrior traders sit on the roof and get a feel for the real-world environment for themselves, as well as absorbing the commentaries of proven market artisans.

REAL FUNDAMENTAL FACTORS

There are unquestionably real fundamental forces that do drive financial markets. Looking at the data and perceiving the real fundamental forces behind what is actually happening are two distinct fields of endeavor, however. They can be successfully married only if the practitioner is mindful of the shortcomings inherent in the data.

No doubt about it, on a macro level, markets move because of fundamental forces acting on them.

In applying real fundamentals, opportunities abound for those who question and observe in equal amounts. No doubt about it, on a macro level, markets move because of fundamental forces acting on them. All major trends are the result of a significant shift in fundamental forces to a new paradigm or an expansion of a previous state of affairs. If there is a fundamental shock, such as a terrorist attack or major natural disaster, the price shift can be dramatic and sharp.

Additionally, if there is no apparent shift in the fundamentals, the markets can still shift dramatically—although perhaps more gradually. This is because the fundamental forces that cause such movements are a consistent influence. When it comes to considering price action and the work of fundamental forces, I imagine these influencing factors to be similar to the forces that act on the water that is stored in a dam during a period of low water usage. While little or no water may be leaving the dam, water continues to trickle into it. Even though there may have been little price movement for a period of time, it is not the case that the fundamental forces have been dormant. The underlying fundamental forces are always still at work. The pressure has been quietly building, and almost anything can now act as a catalyst for its release.

Apart from the economic fundamental forces at work upon a market, there are several other large factors that dictate the direction of our markets. The first of these is emotion, which is addressed in the next section. Alongside the weight of fundamental forces and emotion that daily have an impact on price action are two other major forces: the media and the enormous size of modern-day capital flows.

The conveyance of market information instantaneously via the media reduces the opportunity for objective individual assessment to play its role. The influence of the media is most strongly seen in what is commonly known as the *front-page effect*. The essence of this principle is that once a market movement hits the front page of a standard daily newspaper, the unfurling of the market trend being discussed in that story is complete and it is time to go the other way. In other words, once a market shift has become significant enough to make it to the front page, it has effectively been recognized by all market participants, and they will have positioned themselves appropriately. All those who want to act have done so. There is only the market crowd who are still coming to terms with the news, and it is these Johnny-come-latelies who, last of all, react to the front-page story. The warrior traders, lying in wait for the gullible crowd, have learned that this situation often represents the last wave of liquidity in which to reverse their winning positions and realize those paper profits.

There is at least one warrior trader of whom I have heard who sits in the Swiss Alps most of the year and trades only when markets hit the front page. A quite important aspect of markets that needs to be recognized is that they evolve, and characteristics can shift and change somewhat. For instance, most markets are traded far more heavily today by less professional traders—that is, traders who do not work for large institutions and are focused more on the big picture such as fund managers, but traders who are in the market for the money they can make today. The day traders tend to react to a greater degree and follow media headlines in a herdlike fashion more than the larger institutions. This is not because the large institutions are more clever—far from it. It is a simple function of the role of committees (as discussed later) in large institutions, which slow down their trading response time. Ten years ago one could sell a bull market that had just hit the front page the very next day and do reasonably well. In today's market, it is often best to wait at least three days, and perhaps longer, for everyone who is going to react to the front-page story to finally do so. The principle remains the same, but the market has evolved to be a slightly different animal, and so your trading response has to evolve as well.

The second of these major influences—the enormous capital that is endlessly flowing into stock markets—also provides for a slight variation to the front-page effect theory, which I refer to as the "no doorway is big enough" phenomenon. This situation has come about as a result of the global shift toward private superannuation that has swept the world during the past 20 years or so. This shift has generated huge parcels of money that continually move around the globe to different markets. Overall, these movements are largely dependent on sentiment and beliefs and rarely have anything to do with reality. They are part of investment or pension funds that are compelled by their investment principles to head into equity, bond, or property markets within a particular country. At other times they are simple currency plays with no other purpose beyond speculation.

While with the front-page effect it is imperative to lead the market and then exit quickly as the situation begins to reinforce itself, one interesting aspect of the huge capital tanks that continue to pour money into the market is that if you get into a trend early, you do not always have to look to get out early, as was once the case. It can take quite a period of time for the now-massive herd of very large players to shuffle through the sometimes still relatively narrow market gateway—leaving plenty of time for the nimble warrior to slip through.

The challenge for warrior traders is to escape the pure application of orthodox economic theory and tread a lesser-known path toward theories of varied principles that may exist in the future, based on a study of broad sociological shifts currently taking place. Clearly, some economists already do this, but it would be preferable for it to be the mainstream, centrist approach of contemporary economic thought.

HOW WARRIOR TRADERS CAN USE REAL FUNDAMENTAL FORCES

If a market goes up, the majority of analysts present the arguments for a bull market. If a market goes down, the analysts present the reasons for a bear market. It is rarely the other way round—that is, analysts will rarely present reasons for a bear market when the market goes up, and vice versa. Economics, as it is commonly taught, is a market-following discipline, not a market-leading one.

Certainly, there is much prognostication about the direction of a market, but such predictions are so often incorrect that their originators barely notice the error. By the next day or month, as the market moves differently from the forecast, one can typically find the analysts busy writing papers on why the market did so and how it makes perfect sense after all.

This paradigm leaves a market wide open for successful speculation. This is a fortunate situation for the few warrior traders. While the majority of participants are enjoying their grand feeling of intellectual acceptance among their peers, justifying this with a lengthy dissection of the so-called relevant economic variables, it is often the case that successful speculators have already acted on a different scenario—after which these warrior traders simply wait for the broader market to catch up. The risk/reward of such an approach favors the warrior spectacularly.

There is no doubt the market is driven by the real fundamental forces acting on it. But there is a crucial distinction between the majority of traders and warrior traders, and there is a reason why the market crowd gets it wrong so many times: What the speculators do is accelerate the market in the direction of the net real fundamental forces. Indeed, price movements in the direction of the real fundamentals are always very fast and rewarding. These successful warrior traders take over, using real fundamental expectations. They also know only too well yet another important truth about markets: They always overshoot. So if one gets positioned into a fundamentally driven trend early, the warrior reaps the benefit of having had the fundamental insight early and of the overshoot phase, which he or she will be able to grasp as such in real time. The very aggressive warriors will also look to make a profit on the correction to the overshoot, which itself will be exaggerated. After that, the market will tend to narrow in range but in a very random manner. Most warriors play golf during this phase of a big price shift. But getting back to the lack of market understanding of the real fundamentals.

You're probably thinking, "How is this possible? There is an objective reality as to the state of the economy or economies that can be ascertained and then constructed so as to understand what it is that drives the markets." Although this is partly accurate, the true nature of any economy is completely unknown in real time. Weekly and monthly fluctuations due to natural disasters or the political instability that comes with wars, and a great many other variables, leave economists waiting for the more reliable quarterly data. And yet, even at the monthly level of activity, the data that economists work from will lag significantly behind reality as a result of the time difference between collection and publication. This time lag means that September data sometimes do not appear until early November. Ultimately, then, economists are left dealing with only what they have in front of them: historical, backward-looking data.

Meanwhile, in real time, the market is moving, invariably taking a punt on how future data will unfold. And who is it that leads the market? As you might have guessed, it is the warrior speculators. Just as such individuals would have led the masses into battle in previous ages, orchestrating the terms of the contest and preparing the ground, so too do these latter-day warriors lead the market crowd onward, only to take advantage of their position as the thundering hordes seek to climb aboard the next directional wave.

But why is it that the successful warrior speculators lead the way? Primarily, it is because they are of a different mentality. They think more quickly and act more decisively. They do so because what they want out of the market is not so much to be smarter but to be faster, for they recognize that this is how they get paid. Positioning themselves to get maximum gain from market movements requires that they be there before anyone else and know which way the market will turn. Thus, a vital skill required by warrior traders is speed of decision.

The market economists, however, are thorough and cautious in their analysis and consider both sides of the argument, bull versus bear, repeatedly. This leaves those same market economists open to argument and persuasion. The greater your study of economies, the greater your vulnerability to persuasion. The situation arises purely because economies are so complex, and the perception of them is made ever more complex than even the objective reality because of the impact of a host of theoretical positions, such as reductionist philosophy. There are always many valid bullish and bearish fundamental arguments to be made about any economy at any point of time. But all of this ignores the simple fact that in the midst of this chaotic onslaught of the observation of variables and theoretical application, there perennially exists a subtle, covert, and persuasive force—the movement of the market itself.

Warrior traders, then, for the most part view the broad consensus that too often dominates economic outlooks to be, dare I say, fundamentally flawed. But rather than simply deriding this error, the warrior seeks to turn an opponent's weakness into a decisive advantage. Herein exists significant opportunity for those prepared to take up the challenge—providing, of course, that one does not fall under the influence of the consensus avalanche of argument.

Warrior traders, then, for the most part view the broad consensus that too often dominates economic outlooks to be, dare I say, fundamentally flawed. But rather than simply deriding this error, the warrior seeks to turn an opponent's weakness into a decisive advantage. Herein exists significant opportunity for those prepared to take up the challenge . . .

It is absolutely crucial to successful trading in all markets to understand that economics is an art rather than a science, and that good, real-world economists are probably still in the minority. The warrior has to search for positive track records among analysts and not be blinded into accepting without critique the analysis of any broker or bank. To fail to do so is almost certainly to be assured of being part of the market herd—part of the 95 percent of share-market participants who either barely break even or lose.

A lot of time has been spent on this subject; however, this is probably the most significant factor in the success of a warrior trader. The way of the warrior trader is demanding, and it requires the ability to think independently about the state of an economy and seek out real-world economists and analysts. Finding these allies is invaluable in attaining a real understanding of the fundamental forces driving any market.