

"The Search for the Holy Grail" by Chris Tate

When traders talk about trading system design and its pitfalls they often talk about the search for the Holy Grail. They talk about the obsession of finding one specific indicator that will guarantee them continual success in the markets. Some software packages even come with indicators that are known as the Holy Grail and this only adds to the mythology of an ultimate indicator. Unfortunately whilst all traders talk of their search for the Grail few actually understand the legend behind this search and even fewer understand its relevancy to trading. And most importantly how understanding the legend can improve trading performance.

Most are familiar with the Christian myth surrounding the Grail and the search for it by knights of the round table. This myth itself first appears in written form in a 12th century French fable entitled *Conte del Graal* (Story of the Grail), this tale is also known as *Perceval* and is believed to have been written in about 1180. The myth itself revolves around a vessel from which Christ is supposed to have drunk at his last supper and which was also used to catch some of his blood during his crucifixion. The Grail was then carried to Britain by Joseph of Arimathea, where it lay hidden for centuries. The search for the Grail became the principal quest of the knights of the round table. It was thought that the Grail was guarded by a custodian known as the Fisher King. King Arthur believed that the finding the Grail would cure Camelot of its ills and restore its glory.

Given its supposed history it is easy to understand the importance of the Grail to Christian mythology but the question remains as to why this is important to traders is less obvious. Most traders look merely at the external features of the legend, the fact that it was a fruitless search, the grail was never found. Traders associate this with their quest for the perfect indicator yet this is only half the legend. Being a parable the legend of the grail requires a bit of interpretation. King Arthur send his knights on the quest to enable Camelot to recover. At the time of the quest Camelot was racked by both internal dissent and an external threat. Arthur thought finding the grail would fix these problems. The meaning of the parable is clear it is about the individual not the situation. It is about individuals looking for an external solution to what is an internal problem.

Such a situation manifests itself in traders. How often has the lament been heard, if only I had a better system, or if only I had different data, or maybe if I tried Fibonacci numbers for my moving averages. Many traders have even believed that if they change the colour of their indicators that this will somehow improve their trading. As if altering these external variables will alter their trading performance.

It is undoubtedly true that we need entry signals or setups to enter the market but their importance in trading is vastly overrated. Tomes have been written about signal generation, indicators move in and out of vogue, the current trendy indicator appears to be the moving average ribbon. Charts of price action are now being buried beneath layer upon layer of coloured lines. It is as if by obscuring raw price action traders somehow hope to divine its intent.

Yet Charles LeBeau author of *The Technical Traders Guide to Computer Analysis of*

Futures Markets claims to have tested every possible combination of moving average conceivable and found their performance to be little better than random probability. In any serious testing trend following indicators struggle to have a reliability of above 50%. The MACD histogram, which is thought to be among the best of all indicators, often has a reliability of below 50%. I have personally run a test trading the SPI on an intraday basis by tossing a coin in the morning and found it to be profitable. It is extremely difficult for traders to accept that the tools they use may not be as effective as they thought, or that their methodology may have a reliability below that of simply tossing a coin.

If your trading breaks down then it is more than likely due to some psychological block not your indicators and finding new indicators will not improve your trading. What will improve your trading is an understanding that trading is far more than a search for the ultimate indicator. What has been demonstrated from interviews with top traders is that methodology or the means by which they engage the market is largely irrelevant. What is important is their underlying psychology and how they apply this to the market, it is not what number they use for their moving averages.

Top traders have numerous features in common, they are organized, disciplined, self reliant, analytical. All of these are characteristics of individuals who excel in any endeavour but there is one characteristic that truly sets them apart. They are all grown ups, this may seem like a somewhat facetious remark but top traders realize that ultimately their success or more importantly failure comes down to them as individuals. Traders who look for the Grail are looking for an external crutch to lean on and to blame when things go wrong, these are the same sort of people who blame their [broker](#) when a trade goes wrong. If you have chosen to take someone else's advice or you believe that indicators are all there is to trading then that is your problem no one else's. No magic indicator will save you from yourself and your own folly. What will save you is an understanding that internal problems such as a lack of discipline or an inability to accept personal responsibility for your trading cannot be solved by some external solution such as downloading hundreds of indicators for either your Supercharts or Metastock packages."