

THE PROBLEM WITH AUTOMATED TRADING

Automated trading is a pretty good idea to have. Who wouldn't want to be able to make money while doing other things? That's why most of us become traders isn't it? Automated trading is using a discrete set of rules which have proven successful and programming these rules into the computer. Thus the computer, being an emotionless savant can help you execute your trades effectively and efficiently without the complications of human emotions and perceptions. However, it is this lack of emotion and, especially, perception that causes the machine to fail. There are several reasons for this. The lack of cognitive capability in the computer means that it cannot recognise a double top when it forms. It would not be able to recognise a change in price momentum when it happens. It can only use mathematical methods, like using technical indicators to trade. We know, however, that technical indicators are fallible things. They fail at times. Thus it becomes a numbers game. In order to play the totally objective, fallible and mechanical numbers game, we need to have lots of money to bear the losses before we can start to win. Also, being mechanical, the computer would not be able to detect market makers playing tricks or detect retracements and so on. Thus, it pays to trade with discretion.