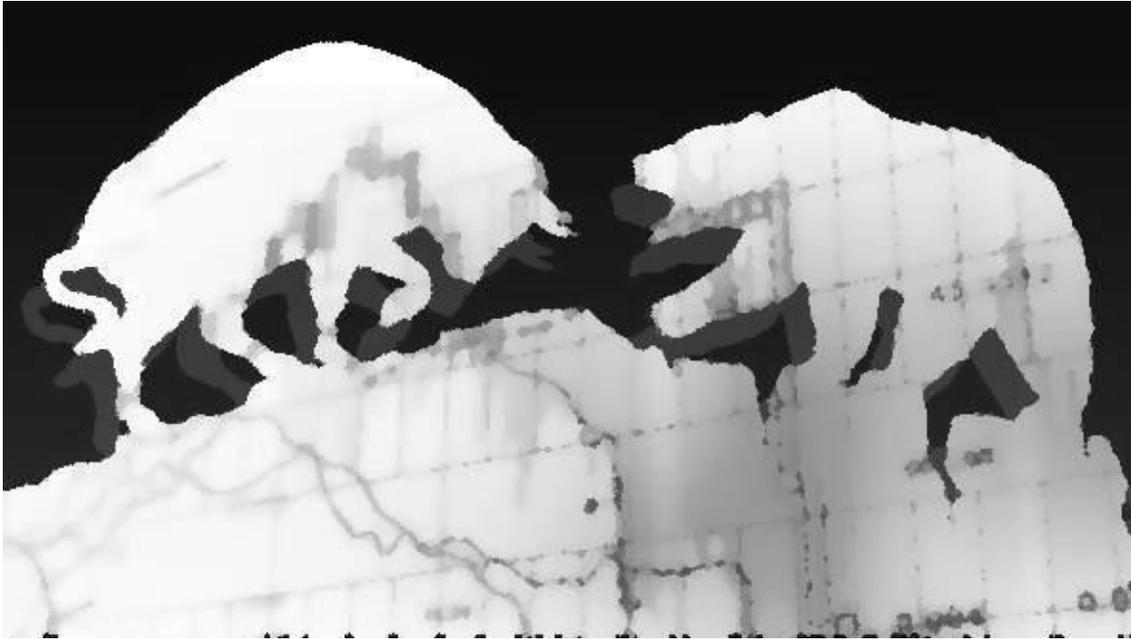


The Trading Parables

A collection of short trading parables based on the lessons of history.

Articles written and compiled by:

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Table of Contents

Use “Economic War Strategy” in a Bear Market	4
Timing – It Can Be Everything	7
History Teaches Us to Trade Patiently	9
In Trading, Plan to the End.....	10
VPT Information.....	12

Use “Economic War Strategy” in a Bear Market

Making a trade is like sending soldiers on the march, declaring war, in anticipation that the cost of doing so will bring gains and fortune outweighing losses. Trading as a career is the war, with each trade a battle.

The trick in war is to know your limits, and not overextend yourself — doing so leaves you vulnerable to attack. Even winning *battles* while the tide is against you will cost you in the long run, depleting resources leading to your demise. When battles are to be waged (for the war is always on) fight only on your own terms, keeping it cheap for yourself and expensive for anyone who crosses your path. By using economic war strategy, fighting efficiently, and only on your own terms you will outlast even the most powerful of foes.

Economic War Strategy: Historic Example (what not to do)

The ancient Romans were masters of warfare, often forcing smaller armies to fight on Roman terms, crushing these armies one by one. But an exception seemed to come in 281 BC. Rome had gone to war with the city of Tarentum on Italy’s east coast. The city was rich, but had no army as the people of the city had become accustomed to a “comfortable lifestyle.” There was no time to raise an army, and no one to train new soldiers, so there was but one choice...

The Tarentines request King Pyrrhus of Epirus to come fight on the city’s behalf. Not only would the king be paid for his service, but the battle would also serve to further his ambitions of following in his lineage of great war heroes including Achilles and Alexander the Great (a distant cousin, so he said).

Tarentum also promised that additional soldiers would also be recruited from allied kingdoms to help Pyrrhus in his battle. Pyrrhus’ kingdom was small and poor, but he raised a ruthless army and was a master strategist at war – he accepted the invitation.

Upon arriving in Tarentum, after sailing the biggest Greek army ever into Italy, Pyrrhus found the Tarentines had failed in their attempt to obtain soldiers

from allied kingdoms (or had not tried). This unsettled Pyrrhus, but he gathered local men and began to train them as soldiers as quickly as he could.

The Romans knew the King of Epirus was a great strategist and leader, so not wanting to allow his army to grow, the Romans moved in and attacked. The early attack put the small army on its heels and near defeat. But Pyrrhus had a secret weapon. Unleashing 20 elephants which went stampeding, the Romans scattered. Never having seen such large beasts the soldiers lost their morale and soon were in full retreat. The battle had been one won by the smaller army.

Word spread and neighboring kingdoms began sending troops to Pyrrhus to help fight the Romans. But many of Pyrrhus's great generals had been killed in the battle and his losses were heavy. He attempted to offer a peace treaty with the Romans, offering to split the Italian territory with them. At the same time he marched on Rome to give the matter a sense of urgency.

The Romans scoffed at the proposal and sent out troops to once again do battle. Pyrrhus, the great war strategist, was again able to defeat the Romans by luring them into ill suited terrain, slowly demoralizing the Roman soldiers and then once again unleashing his elephants.

The Italians cheered and it seemed like a great victory. The Romans were undaunted and had the resources to keep sending more troops if it came to that. Once again losses were heavy for Pyrrhus; his great generals almost completely decimated.

When Pyrrhus was asked about the victory, he stated, *"If we defeat the Romans in one more such battle, we shall be totally ruined."*

Economic War Strategy: The Trading Take Away

Winning one battle means nothing if you lose the war. With the trading, the war is always on. This means you can choose the battles you take part in. The market is a fordable enemy (or your greatest ally), and can outlast even the richest trader who fails to go with the current tide. The greatest strategy is to go with the

path of least resistance, for doing so will never deplete your resources. Those that take the other side of the trade will continually be losing resources – and at times a move in their direction may occur, and it seems like they won the battle. But stay vigilant – in the end it is the man who maintains his resources and possesses the ability to utilize those resources only at times it will benefit him that wins the war.

Don't be Pyrrhus, who though a great fighter, ran himself into the ground by fighting an army (trend) which could long outlast him. As soon as Pyrrhus got to Tarentum and saw no recruits waiting for him, the game had changed. It was no longer what he signed up for, yet, he did not adjust his strategy – this was his first mistake.

Marching on Rome when he was not ready also was a mistake. He would have been far better off to let the Romans come to him, to his own terrain where he could keep losses to a minimum and Roman casualties high. It is also quite possible that Pyrrhus entered a war he never should have taken on in the first place, but his ego got in the way of clear judgement.

Day traders, trade with the intra-day trend, and do not waste time or money fighting the trend. Long-term traders, in a down market, save your resources. There will come a time to utilize your money for worthy investments when the market turns higher. Continually trying to buy in a down market will only serve to demoralize you and deplete your resources for when real opportunities come along. Use an economic war strategy.

It is summed up perfectly by Robert Greene in “*The 33 Strategies of War*”:

From the Story of King Pyrrhus and his famous lament [see above] after the Battle of Asculum comes the expression “Pyrrhic Victory,” signifying a triumph that is as good as defeat, for it comes at too great a cost. The victor is too exhausted to exploit his win, too vulnerable to face the next battle.

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Timing – It Can Be Everything

During the 1780's Joseph Fouche traveled from town to town teaching mathematics, but he knew it was not his calling. He needed some event to make his mark on the world – and that event came in 1789 when the French Revolution broke out. He befriended revolutionary Robespierre and proceeded to rise in the rebel ranks. Yet he also knew he needed to be the proper side of the swaying political dynamic, lest he literally lose his head.

Over and over again Fouche cunningly switched sides, including getting appointed chief of police and then “sleeping” through a coup by Napoleon in 1799. By not threatening Napoleon or intervening, Fouche was able to keep his post and became close with the new leader. As Napoleon fell, Fouche lay low and once again watched what happened around him, waiting for a signal on what side to align himself with. When Napoleon returned Fouche was reinstated.

Like a cat with nine lives, as Napoleon's rule once again came to an end Fouche was able to retain his post. Being a highly ranked individual, having escaped the fate (beheadings) of many others in his position (over and over again), by now no one even dared challenge him.

Joseph Fouche's timing was impeccable. The full story is remarkable as this is the briefest of recaps. He continually put himself on the side of whom he thought would have power, not just for the day but for months and years out--and he planned accordingly. When times were uncertain he lay low, attracting little attention and knowing that his time for prominence would come again.

Timing is everything. You can be on the right side, but if you are too early or too late, it is all for not. Focus on your timing, hone your patience, control your emotions, monitor your surroundings closely and only act/react when required. By doing so you can attain the ultimate power.

In your trading be cunning. Don't try to be a hero, but rather allow yourself to profit from the climate of the day. Do not become tied to one side of the market, for the market is fickle and will not respect your loyalty. Lay low in times of

uncertainty, and step out of the shadows only when it appears one side has upper hand – align yourself with the strongest, and profit accordingly.

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Use the “Mirror Effect” in Unpredictable Markets

In war and conflict, as in the markets, the moves of our counterparties are often unpredictable. This unpredictability can be our downfall, or it can be the element by which we lead ourselves to victory.

In Greek mythology, Medusa was a hideous thing with serpents for hair, heinous teeth and a long protruding tongue. She was so ghastly that anyone who looked upon her was turned to stone. To conquer such an enemy – one which is more powerful and seems to have the decided advantage – Perseus, the hero who slay Medusa, knew that he must disguise his own movements. But how?

When our enemy’s movements are unknown, or the foe appears more powerful than us, the simplest approach is to mirror their movements. Therefore, Perseus polished his shield creating a mirror and tucked himself behind it. By doing so all Medusa saw was herself, resulting in her destruction as Perseus crept close and lopped off her head.

Markets can be unpredictable and contain many foes that are often far more powerful than we are. By mirroring their movements you turn a foe into an ally – at minimum they are neutralized. When implementing the mirror effect do not fight immediately unless you know your adversary and their intentions (and this is rare). Rather mirror their movements collecting profits along the way, and only when you see weakness do you strike with might.

The truth is rarely revealed through words, but rather through what is actually done. Trends may exist for no apparent reason. Mirror the actions of the buyers in uptrends– you do not need to know their reasons, profit from what

they actually do. The tides will turn and buyers will flee or convert to sellers...you will be ready to pounce on the fickle crowd. Mirror these movements of the emerging force by crushing the remaining buyers as they retreat – always mirror the more powerful group, now the sellers.

When uncertain, use the mirror effect to mirror the actions of the others and you will earn their graces. Slide under their radar and gain information which you can use. When your time comes to act on their weakness, lower your shield, strike and collect your spoils. The mirror effect is a powerful strategy that can defeat almost any opponent.

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History Teaches Us to Trade Patiently

Patience – Rushing Will be Your Demise...

17th century Ming painter Chou Young had an experience which changed his behavior forever. Coming across a river on a ferry, he had important books and papers to deliver to a city about a mile from the river bank. Night was approaching, and he became concerned he may not have time to reach the town before the gates were closed for the night. He had with him a young boy to help carry papers, and as the ferry made it across the river, Chou asked the boatman if there was enough time to carry the books and papers to the city before the gates closed? The boatman looked at the small boy, the clutter of books and papers and responded “Yes, if you do not walk too fast.”

Chou was puzzled, but he and boy began on their way. As it grew darker they quickened their pace, not wanting to be locked out. Soon, they were almost running, fearful and impatient. It was then the string holding the papers broke,

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scattering everywhere. It took much time for the papers to be collected and by the time they reached the city gates, it was too late.

Be patient and you will get to where you want to be. If you rush your trades, or become impatient and do not wait for good trades, you will find yourself worse off than when you started.

Taking your time to do things will in fact give you more time, because you will spend less time fixing hastily made mistakes.

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In Trading, Plan to the End

Follow your personal plan to the end...

1863. Prussian premier Otto von Bismarck, feeling under the thumb of the dominant Austrians in the German Federation hatches a plan for no longer being the servant boy of Austria. His plans start by attacking weak Denmark to take back former Prussian lands – but he enlists Austria in the war claiming the lands will be theirs. The war is won and Bismarck then demands the newly acquired land.

Austria is enraged, but compromises and gives Bismarck a portion, later selling them the rest. Bismarck knows this sends a message to the rest of Europe – Prussia is on the rise and Austria is conceding to Prussian demands. In 1866 Bismarck convinces the Prussian royalty to withdraw from the German Federation, thus going to war with Austria. The superior Prussian army crushes the Austrians in the brutally short Seven Weeks War.

Bismarck now switches his tune and puts himself on the side of peace, coming to a treaty with Austria and giving other German states total autonomy. This positioned the German Federation on the side of Bismarck for another war which would occur between Prussia (and the German Federation) and France.

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France is defeated, but Bismarck wants no land, although he is convinced that Alsace-Lorraine should become part of the Federation.

Europe feared the now powerful Prussians (Bismarck's) next move, but his actions were not as expected.

Bismarck founded the German Empire, the Prussian king became the emperor and Bismarck the prince. But no more wars were started by Bismarck despite outside expectation. Instead he made it the rest of his life's work to maintain peace. This was the final move of his original plan...to gain control and then keep it through a state of stability.

To outsiders it may look as if Bismarck lost his nerve or became complacent. But in fact he stuck to his original plan. He did not overreach, for to do so would have created too many enemies. To not reach this end point would have left him and his country weak looking and open to counterattacks. Therefore Bismarck played *his own plan* perfectly. He used as much force as necessary, but no more. And when he had reached his goal, he switched tactics and made sure he was able to keep the spoils of his plan.

Plan ahead accounting for all possible contingencies. Do not stop until your plan is complete, and do not keep going after you have reached your goal. Stop, reassess, and make a new plan if you need to go further. Do no wing it after you have accomplished a goal.

At all times actions (or inaction) must be calculated. For if it is not you doing the calculating, it is you that is being calculated in someone else's plan.

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