

TECHNICAL TRADER WORKSHOP

Confirmation Bias



Akil Stokes

Professional Trader and Live Room Moderator

TradeEmpowered.Com

What exactly is confirmation bias? To simply put it, confirmation bias means that when an individual is asked a question, they are more likely to look for an answer that fits into their pre-conceived beliefs, while distancing themselves from any ideas that don't. With that being said, having some confirmation bias isn't necessarily a bad thing. It all depends on how disciplined you are when it comes to following your trading plan and staying true to your trading ethics.

Mainly there are two types of traders, those who analyze the fundamentals and those who use technical analysis. I'm sure there are a few traders out there that consider themselves to be a mixture both, (and if that's working out then stick with it), but that's often when the problems of confirmation bias arise. Just to be clear I'm an advocate of following the fundamentals and having an overall knowledge of what's happening in the world, but I will never let it dictate any of the trades I involve myself in. Here's what I often notice, (and this comes from the past and current clients that I've worked with), if on any particular day, everything that a trader hears or reads spells doom for a certain currency, then that trader will start to create a similar belief system. Having this new formed belief/directional bias may result in the trader either missing a perfectly good trading opportunity, because their mind is only telling them to look at the market a single way. In this case, since all of the news was negative, the trader would only be looking for short opportunities for that particular currency. What's even worse is that many traders will also force themselves into a bearish position that doesn't meet their rules because they feel as if they have to be involved so that they don't miss out on the move.

Now as I mentioned earlier, confirmation bias isn't always a bad thing to have as long as you can control how you use it. The trader that generates a confirmation bias based off of their technical analysis is able to use this tool to filter which trades they take and don't take. It can be positive because once your analysis tells you which way the market should move, you can then use that belief system to lock in on opportunities that meet that bias. Knowing which direction you're looking to trade in advance of any setup will put you a step ahead of the market, which keeps you out of the "okay" looking trades and allows you to catch the absolute best opportunities out there.

If you're one of those traders that thinks confirmation bias is affecting them in a negative way, try this. Instead of asking yourself "how can I get involved in this trade" ask yourself "why shouldn't I enter this trade" and see what you come up with.