

CALCULATE BALANCE OF LUCK AND SKILL

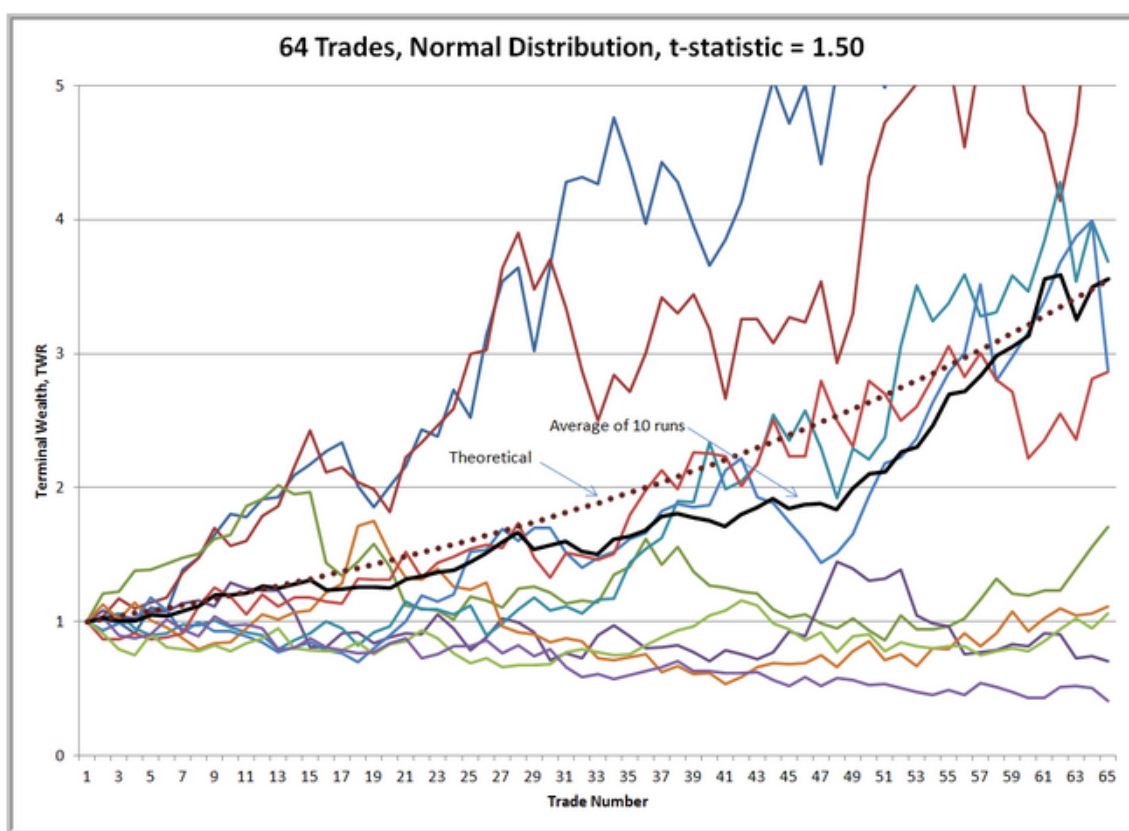
By Chris Svrocik

Includes free spreadsheet

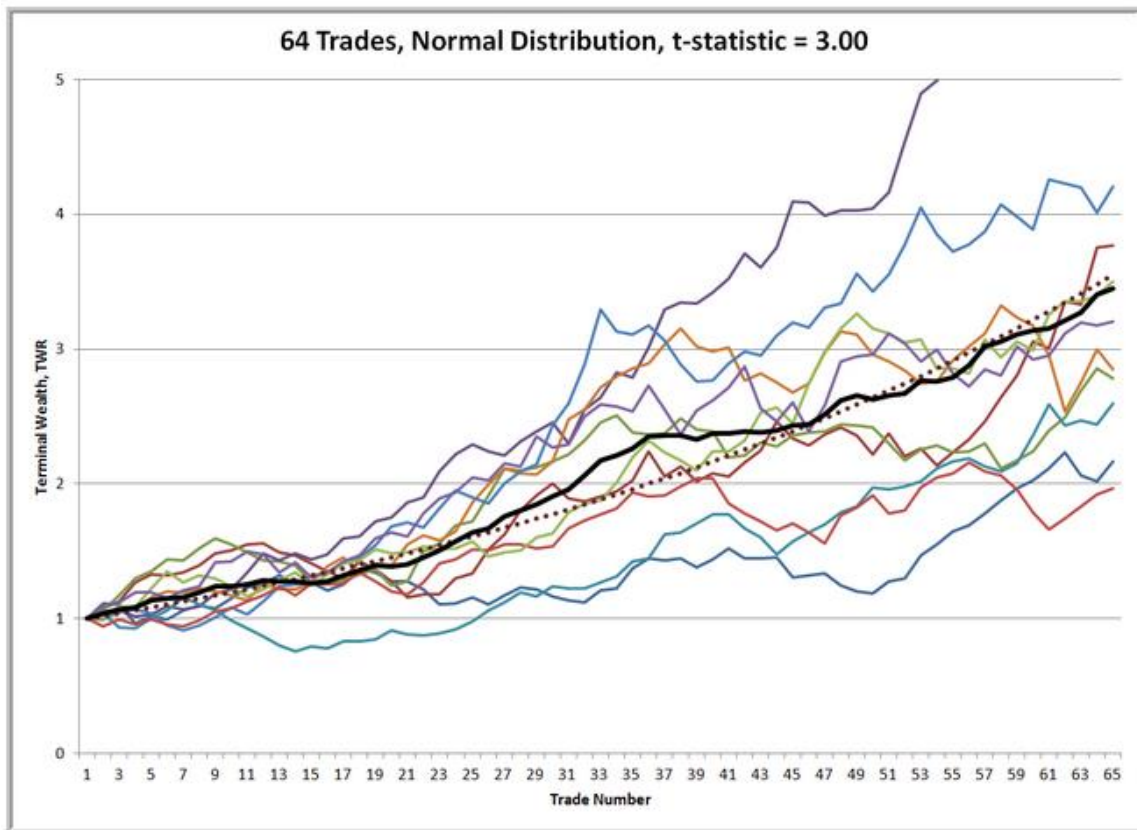
The t-statistic helps calculate whether a trader is achieving their results from pure luck and randomness OR whether a long-term sustainable approach is behind the success.

This is VERY important as it provides a key understanding whether we are progressing as a trader and whether we are handling our risk management properly.

The T-stat basically indicates how much range or distribution is around your result. When the variance is wide then there is high chance that your result was just lucky .



However, if the variance is small then there is a higher chance that traders will see a similar repeat of previous results in the future. That is critical for consistency!



The higher the t-stat the better it is for you a trader (less variance). A t-stat above 2.0 is considered long-term viable / sustainable. A t-stat below 1.0-1.5 is bad and a t-stat of 1.5-2.0 still needs to prove itself. The higher the better so 3, 4, 5 etc are even better than 2.

Here are the step by step instructions to calculate the T-stat yourself:

1) Choose a group of weeks, months or bunch of trades you want to analyze. It's good to have a sample size of minimum 30 trades. Take the % result of each trade. Count the total of all the trades. STAP 1

2) Divide the total by number of trades to get average result per trade. STAP 2

3) Take the % result of each setup and subtract the average (point 1) per trade.

4) Multiply the result of point 3 of each row by/times point 3

trade	resultaat	STAP 3	STAP 4
1	3.00%	0.02705	0.000732
2	1.80%	0.01505	0.000227
3	2.20%	0.01905	0.000363
4	-1.00%	0.01295	0.000168
5	-1.70%	0.01995	0.000398
6	-1.65%	0.01945	0.000378
7	-1.00%	0.01295	0.000168
8	2.20%	0.01905	0.000363
9	1.75%	0.01455	0.000212
10	-1.10%	0.01395	0.000195
11	-0.25%	0.00545	0.000030
12	-0.10%	0.00395	0.000016
13	1.00%	0.00705	0.000050
14	-0.60%	0.00895	0.000080
15	1.40%	0.01105	0.000122
16	-0.80%	0.01095	0.000120
17	-1.00%	0.01295	0.000168
18	1.40%	0.01105	0.000122
19	1.20%	0.00905	0.000082
20	0.50%	0.00205	0.000004
21	-1.50%	0.01795	0.000322
22	1.25%	0.00955	0.000091
23	-1.30%	0.01595	0.000254
24	1.50%	0.01205	0.000145
25	1.40%	0.01105	0.000122
26	-1.10%	0.01395	0.000195
27	-0.25%	0.00545	0.000030
28	-0.90%	0.01195	0.000143
29	0.50%	0.00205	0.000004
30	2.00%	0.01705	0.000291
STAP 1	8.85%	STAP 5	0.00559
STAP 2	0.00295	STAP 6	0.52752
STAP 7	5.48	STAP 8	2.89

- 5) Count the total of point 4 for all rows.
- 6) Divide the average result per trade (point 1) by point 5
- 7) Square root of the number of trades
- 8) Multiply point 7 by point 6 = T-STAT

The figure STAP 8 on the spreadsheet is the T-STAT reading. Higher than 2.0 and you can be confident the methods you are using and your results are due to skill and not due to luck.

Chris Svorcik has been trading Forex for 10 years and has followed the Forex market since my teenager years (20 years).

He helps traders at Elite CurrenSea <http://www.elitecurrensea.com/> with creating a consistent plan, matching strategy with their psychology, and providing the best systems and methods.

He is also a Forex Educator and Analyst at Admiral Markets broker. Send an email to info@elitecurrensea.com