

## **CALCULATE BALANCE OF LUCK AND SKILL**

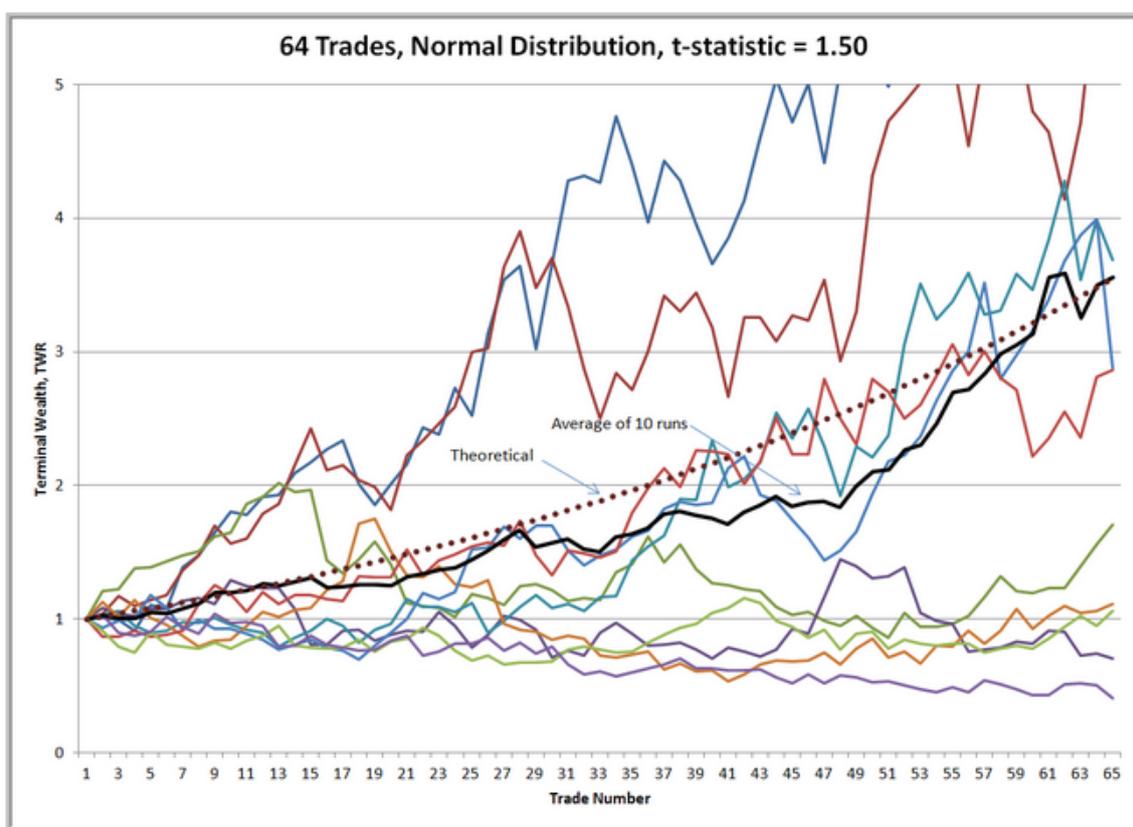
*By Chris Svrocik*

*Includes free spreadsheet*

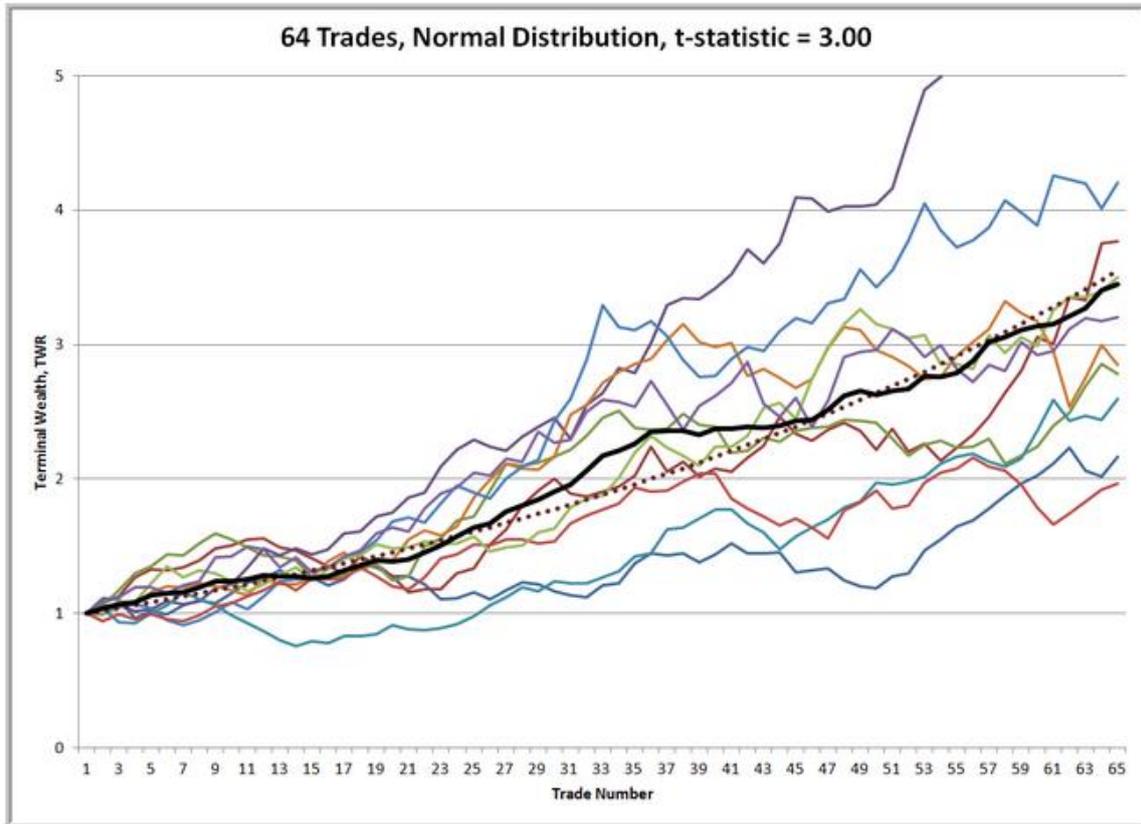
The t-statistic helps calculate whether a trader is achieving their results from pure luck and randomness OR whether a long-term sustainable approach is behind the success.

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.

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*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.*

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