

# Discretionary Vs Mechanical Forex Trading Systems

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# Discretionary vs Mechanical Forex Trading Systems

Are mechanical Forex trading systems really any better? Can Automated systems outperform discretionary Forex trading systems? Let's find out.

Some people prefer mechanical Forex trading systems while others prefer a more discretionary approach. My personal approach lies somewhere in between. Let's look at each of them closely:

## Mechanical Forex Trading Systems

By definition, a mechanical Forex trading system provides well defined entry and exit criteria and clearly describes trade setups and execution. Such trading systems can be quite easily transformed into automated trading systems which can aid back testing, research and analysis.

The merit of such systems lies in the fact that the guesswork is taken out of equation and trader only needs to follow clearly defined set of rules. It helps to avoid emotions coming into the way of trading and with little discipline such systems can be easily be followed. Not only that but it also helps in reducing stress factor which is a bonus.

On the negative side of mechanical Forex trading systems we got problems with changing market conditions. No set of rules can cover all market conditions and there will be times when such systems would fail miserably. Situation could become worse if the market conditions do not change for a sustained period of time. Automated systems written based on such trading methods will be unable to cope with unpredictable market conditions.

## Discretionary Forex Trading Systems

These systems bring out the artistic characteristics of traders. This is where the logic gets fuzzy and experience becomes paramount in making trading decisions. A typical discretionary Forex trading system would use chart patterns and trend lines, which by a means are not determined by exact set of rules.

Adaptability and customization are two big advantages of any discretionary system. Such system can easily adapt to changing market conditions and rules can easily be changed to accommodate any unforeseen market scenarios. Experience and intuition are the cornerstones of any discretionary Forex trading systems and they can never be programmed into an Automated system.

On the flip side, such systems are hard to back-test and have unstable trade results caused mainly by emotions and stress level. Such systems require much more trading experience and higher degree of discipline.

### **Discretionary vs Mechanical Forex Trading Systems Summary**

In my opinion, anyone new to Forex trading should start off with mechanical trading systems, it helps to develop discipline and gain experience. It takes time to develop feel of the market and it then becomes easier to move towards more discretionary trading systems. My current method has clear set of rules that identify potential trades, I then use my experience to narrow down and chose the ones that I see fit for the current market conditions. With more work and analysis I hope to improve over time.

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