The Spinozan

Trader

Causal Understanding as the Ultimate Edge

A GEOMETRIC TREATISE

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Kontaus Research Group

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For those who seek not luck

but the causes of outcomes,

and in understanding those causes,

find the only freedom the market permits.

Part I: Of Markets and Modes

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DEFINITIONS

Definition I. By *market* I understand any structured arena in which participants exchange claims on assets through the mechanism of price, where each participant strives to persist in being and acts from causes that are in principle intelligible.

Definition II. By *price* I understand the emergent equilibrium of intersecting conatuses at a given instant, expressed as the level at which buying pressure and selling pressure balance. Price is not a decision. It is a resolution.

Definition III. By *trader* I understand a market participant who assumes directional risk in pursuit of profit, whose decisions are caused by the interaction of ideas, affects, and external circumstances, and whose persistence depends on the maintenance of capital sufficient to continue trading.

Definition IV. By *conatus* I understand the striving of each thing to persevere in its being. In markets, the conatus of a participant expresses itself as the drive to preserve and grow capital. The conatus of a market expresses itself as the tendency of a price regime to persist until a force of sufficient magnitude reverses it.

Definition V. By *affect* I understand a modification of the body by which the body's power of acting is increased or diminished, together with the idea of that modification. Hope, fear, greed, and revenge are affects. They are not analysis.

Definition VI. By *adequate idea* I understand an idea that represents its object completely and truly, from its causes. An adequate trading idea includes the causal mechanism, the probability distribution, the boundaries of applicability, the failure modes, and the conditions under which the idea is falsified. An inadequate idea is partial, confused, or derived from effects rather than causes.

Definition VII. By *edge* I understand a positive expected value per trade, calculated as the product of win probability and average gain minus the product of loss probability and average loss, after transaction costs. An edge is not a prediction. It is a mathematical property of a decision process.

Definition VIII. By *risk of ruin* I understand the probability that capital is depleted to zero before the edge has time to compound sufficiently to make ruin negligibly improbable.

Definition IX. By *regime* I understand a configuration of market conditions, defined by direction (trending or ranging) and volatility (high or low), that determines which classes of strategy have positive expected value.

Definition X. By *noise* I understand price movements that are samples from a strategy's normal probability distribution, as distinct from structural failure, in which the underlying causal structure that produced the edge has changed.

AXIOMS

Axiom I. Every market participant strives to persist in being. (Conatus.)

Axiom II. Price at any instant is the equilibrium of all intersecting conatuses expressed through the mechanisms of bidding and offering.

Axiom III. The causal structure that produces price is too complex for any finite participant to grasp completely. The future state of price is therefore uncertain for every participant.

Axiom IV. A trader's decision to enter, hold, or exit a position is caused. The causes include the trader's ideas, affects, history, capital position, physiological state, and external circumstances. There is no uncaused decision.

Axiom V. Capital compounds geometrically. A loss of fraction *x* requires a gain of fraction *x/(1-x)* to recover.

PROPOSITIONS

Proposition I. The market has no will.

Depends on: Def I, Def II, Ax II.

Proof. Will requires subjectivity: the capacity to form intentions and act toward an end. The market is an aggregate of intersecting conatuses (Def I). An aggregate has no subjectivity. Price is the equilibrium of those conatuses (Ax II). The equilibrium resolves without intention. Therefore, the market has no will. Q.E.D.

Corollary. Attribution of intention to market movements is an inadequate idea , a category error that produces resentment, revenge trading, and the belief that the market is an adversary rather than a causal field.

> *Scholium.** Most trading discourse personifies the market: "the market taught me a lesson," "the market took my stop," "the market is hunting liquidity." These are metaphors. Metaphors become traps when the trader forgets they are metaphors. A losing trade is not a punishment. It is an effect of causes the trader did not adequately understand. Investigation improves understanding. Resentment degrades it.*

Proposition II. When a participant's conatus is threatened, the affects that arise degrade the adequacy of that participant's ideas.

Depends on: Ax I, Def V, Def VI.

Proof. By Ax I, every participant strives to persist. A threat to persistence is a threat to the conatus. By Def V, a threat to the conatus produces affects: modifications of the body that diminish its power of acting, together with the idea of that diminishment. The idea