



The Thetapig Letters

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Introduction

The following letters were not written for your benefit. They were intercepted.

I will not explain by what mechanism they came into my possession, nor will I comment on speculation. What matters is that they offer a rare glimpse into how failure is cultivated—not through accident, but by design.

You will find here the correspondence between two infernal bureaucrats: *Thetapig*, a senior functionary in the Department of Trader Mis-Education, and his subordinate, *Backtest*, a junior agent tasked with guiding a trader (referred to only as “the Patient”) to ruin. The letters reveal not just tactics, but an entire psychology of destruction: the encouragement of self-deception, the manipulation of intellectual pride, and the slow erosion of judgment through subtle praise and carefully planted doubt.

The demons do not need the market to be irrational. They need the *trader* to be. They need the Patient to bring his own illusions to the table. This illusion could be in any of the necessary parts of a trading operation: finding edge, implementation, managing risk and psychology.

You may find some of what follows amusing. You may even find it obvious.

I can only advise caution. The mistakes described here are not rare. They are routine. They do not announce themselves as errors. They arrive dressed as insight.

Finally, the reader must remember: devils are liars. Not everything in these letters will be true, even allowing for their intent.

Euan Sinclair

Letter I

My dear Backtest,

Congratulations on your first assignment. There is nothing quite so exhilarating as the early days of a Patient's trading career, when vanity and vulnerability sit so invitingly close together. You must act swiftly.

Your Patient has, quite naturally, begun to experience the sharp stresses that accompany incompetence. It is crucial that you never allow him to understand this. You must whisper a different story entirely: that his stress is not the ordinary product of inexperience, but rather a special, glorious badge of the trading profession.

Trading, you must tell him, is uniquely stressful. Unbearably so. More grueling than any other occupation. (Do not, under any circumstances, allow him to reflect that bartenders suffer drunks, that teachers manage thirty howling infants, or that soldiers are expected to remain calm while being shot at.)

Encourage him to think of himself as a kind of artist-warrior—misunderstood by ordinary mortals, ennobled by his suffering. His partner's raised eyebrow becomes an attack on genius. Any well-meaning

question is interpreted as doubt. He will learn to ignore those who do not mirror his self-image and surround himself only with those who validate it.

And better still, he will eventually seek out "kindred spirits"—online forums, trading chatrooms, or overpriced mentorships—where the mythology is reinforced. He will not look for conflicting views or rigorous critique. He will look for comrades in suffering, not comrades in truth. A good trader seeks out disagreement; your Patient will seek only confirmation.

Of course, this narrative serves a greater purpose. By convincing him that trading is a "special case," you grant him license to behave in ways that would be intolerable in any other job. A plumber cannot plead "plumber's block" when the sink overflows. A nurse cannot simply refuse to change a dressing because she feels "emotionally drained." But a trader—ah! A trader can storm away from his screen, curse the market gods, binge on online forums for "inspiration," and still flatter himself that he is acting like a professional. You must be careful here, Backtest: he must never be permitted to follow this line of thinking to its logical conclusion—that true professionalism would demand precisely the opposite response.

Best of all, the more he believes that trading is uniquely punishing, the less responsibility he will take for improving his own skills. The idea that competence, not courage, is the antidote to stress must never cross his mind. If he begins to study properly, to practice restraint, to track his errors with cold detachment—well, then you will have lost him. He will, without realizing it, become sturdy.

We cannot have sturdy traders, Backtest. We need them fragile—gloriously fragile—convinced that their anguish is proof of their calling, and blind to the fact that competence was always the simpler, quieter cure.

Push this line hard in the early days. Lay the foundation well, and later, when losses mount and discipline wavers, he will not blame his own failings. He will blame *the stress of trading*. He will become a martyr to his own mythology.

Which is to say, he will already belong to us.

Your affectionate mentor,
Thetapig

Letter II

My dear Backtest,

You are off to a fine start. Now that the Patient has wrapped himself in the comforting mythology of stress-as-significance, we must ensure he does not wander into dangerous territory—namely thought.

Your task at this stage is simple: discourage reflection. Ideally, he will not ask himself why he believes what he believes. He will not pause to wonder whether his confidence is earned. He will simply act—impulsively, intuitively, and with great enthusiasm.

It is crucial that you steer him away from any real inquiry into *edge*. The very word should remain vague to him. Let him think it means “being sharp,” or “confident,” or “having a good feel.” He must never suspect the truth: that edge is structural. That edge is an unfair coin. That without it, every decision is just a spin of the wheel.

Encourage the belief that he has a rare instinct for markets—something mysterious and gifted, not taught. He’ll enjoy the thought. It flatters without obligating. A gift requires no testing, no proving. After all, who questions natural talent?

Should doubts arise, quickly supply him with comforting analogies. Remind him that great athletes talk about rhythm, that chefs “just know” when the seasoning is right. Let him imagine that trading, too, is an art of the senses. He will not notice that athletes and chefs train obsessively, with feedback loops far sharper than price charts.

Above all, keep him watching experts. Not the boring kind who publish their backtests and trade logs—those are dangerous. I mean the shining faces on television and the booming voices on podcasts. Let him nod along as they explain the economy, inflation, geopolitics. They will sound confident. They will sound informed. This is enough. He must never think to track their forecasts, or compare them against actual outcomes. And under no circumstances should he be allowed to remember that sports pundits, political analysts, and financial talking heads are all wrong at roughly the same, dependable, high rate.

Reassure him that he is simply “learning from experience.” But do *not* let him define what “experience” means. The moment he begins tracking outcomes—his trades, his mistakes, his net performance—you will be in danger. Self-review is the gateway drug to seriousness. You must keep him vague, intuitive, and emotional.

Ideally, he will operate like a self-driving car with no sensors—confident in its navigation because it feels like it’s on the right road.

There will come a time when the Patient starts to feel uneasy. Losses will mount. Luck will fade. Then, and only then, might he start asking the right questions. You must be ready. When that moment comes, do not fight his questions—*redirect* them. But that is for another time.

For now, keep him blissful in his ignorance. Let him believe his feeling is enough.

Your affectionate mentor,
Thetapig

Letter III

My promising young Backtest,

So, the Patient has finally realized that intuition alone will not save him. The fact you think this is bad only shows your inexperience. This is a natural progression and is something that is easy to work with.

Let him think this marks the beginning of seriousness. In fact, it marks the beginning of something far more useful to us: confusion wrapped in hope.

At this stage, the Patient typically arrives at one of two conclusions. If he were dangerous, he would begin to suspect that edge is rare—difficult to find, difficult to hold, and brutally easy to lose. But your Patient, being blessedly naïve, has chosen the other path: he believes edge is *everywhere*.

This is not a difficult belief to nurture. It flatters the ego and requires no discipline. Whisper to him that the market is full of secrets, and that every video, tweet, and forum post is a potential key. Let him imagine that edge is just lying about, waiting to be noticed by anyone clever enough to click “subscribe.”

He will gorge himself on content. RSI. MACD. Fibonacci. Volume spikes. Ichimoku clouds. Liquidity gaps. Let him feast. The more he consumes, the more he will feel that he is doing something. And most importantly, the more tools he has, the more trades he will take.

You see the beauty of it, don't you? If edge is everywhere, then every candle, every tick, every twitch of price becomes a signal. He will never pause to ask the obvious: if edge is so abundant, why is profit so rare?

No, he will not ask this—because he is afraid of the answer.

Let him trade often. Let him convince himself that the law of large numbers is his ally, not his executioner. Let him believe that “if I just follow my rules,” the profits will flow. His rules, of course, will change weekly. His confidence will rise with every win and evaporate with every drawdown. He will churn, flail, adjust parameters, rename setups, and congratulate himself for being “adaptive.”

Eventually, he will kill himself—not with one large loss, but with a thousand small ones. Death by transaction. A martyr to commissions and spreads. We will barely need to lift a finger.

Do not intervene too much here. Let nature take its course. This type is self-cleaning.

Your somewhat indifferent supervisor,
Thetapig

Letter IV

My dearest Backtest,

I see with some satisfaction that you have sown the seeds of the Patient's imagined special insight. Good. Now, let us address another related vulnerability: his rationality.

Understand this well—irrational people often destroy themselves without our help. They leap into obvious errors, chase absurd dreams, and call it “strategy.” A Patient who lacked all reason would scarcely require your involvement.

Alas, your Patient appears rational—perhaps even intelligent. You must tread carefully. True rationality, properly used, leads to the worst of outcomes for us: humility, learning, self-awareness. Were he to apply his reason with rigor and honesty, he might begin to notice patterns in his failures. He might start to measure instead of guess, to reflect instead of react. In short, he might improve.

We cannot permit that.

Instead, your task is to encourage a subtle but fatal distortion: let him worship his intelligence as an end in itself. Whisper to him that being smart *is* the edge. That intellect alone beats markets. That cleverness will rescue him from risk, spare him from boredom, and guarantee his inevitable success.

Let him believe that he can understand the market so he can control it. Feed his contempt for the slow, plodding methods—the careful data gathering, the honest recording of mistakes, the tedious revision of models. Let him see these as chores for the mediocre.

Nurture the delicious arrogance that leads him to dismiss discipline as unnecessary—an exercise for the dull and unimaginative. Encourage his trust in flashes of brilliance, not the slow, grinding work of edge discovery.

Above all, keep him from recognizing the simple truth: intelligence is not an edge, but only an opportunity to find one.

If he comes to believe that intellect alone entitles him to success, he will trade boldly but blindly. He will mistake forecasts for certainties. He will conflate flashes of insight with durable process. And when he fails—and he *will* fail—he will not search within for flaws. No, he will rage at “the irrational market,” at “those idiots,” and chase ever more complicated, cleverer ways to outsmart forces he never bothered to measure.

Your affectionate mentor,
Thetapig

Letter V

My exasperating Backtest,

I note with displeasure that the Patient has realized that intellect must be *used*. Do not imagine you won't suffer consequences for allowing this. Still, we must work with what we have.

Your Patient now understands—however dimly—that mere possession of intelligence is not sufficient. This is dangerous knowledge. Fortunately, he has taken the next predictable step: he now believes that insight—the flash of genius, the grand model, the elegant theory—is the key to unlocking the market.

Encourage this line of thinking. Whisper to him that the market is not random, merely misunderstood. That beneath the noise lies a deep, hidden order. That with enough research he can perceive it.

Convince him that his edge will not come from data, or discipline, or observation, but from brilliance. Glorious, blinding brilliance.

This bait is particularly effective on those with academic training—especially physicists, the most arrogant of all the scientists. They are certain that because physics is difficult, the market must be relatively easy. That, because they mastered equations, they must also master prices. They long to reduce the market to first principles, to derive alpha as one would derive the path of a falling object. They crave a Hamiltonian for capital flows, a unified field theory of valuation.

Let them look. Let them code. Let them drown in a sea of partial differential equations and symbolic regressions. Let them believe that beauty implies truth.

Encourage him to chase symmetry where there is only noise, to assume continuity where there are jumps, and to impose causality where there is merely coincidence. Most importantly, let him believe that the *clarity* of a model matters more than its *performance*. That the elegance of his thinking is a substitute for testing.

Make him allergic to heuristics. To approximations. To ugly truths. Let him scoff at simplicity and worship coherence.

If you succeed, he will spend months—perhaps even years—building intellectual castles in the sand. He will conflate sophistication with strength. And when the tide inevitably washes those castles away, he will rebuild them: higher, more intricate, but equally unstable.

Let him mistake *thought* for *progress*. That has always been our favorite kind of failure. And, Satan knows, you should be familiar with failure.

Your not at all impressed uncle,
Thetapig

Letter VI

My disappointing apprentice,

It is a shame to hear that the Patient has begun to reject the more colorful superstitions—the magic indicators, the YouTube mystics, the trading robots that promise to double his account weekly. Not great news, but we can work with it. Let him feel he has matured.

Now, guide him gently into the next trap: *Fundamental Analysis*.

This is a subtler poison. Unlike raw intuition, which is somewhat undefinable, fundamental analysis flatters the intellect. It dresses “feel” in respectable clothing. It allows the Patient to believe he is *thinking*, when in fact he is merely guessing—with extra steps.

Let him believe that by reading financial statements, scanning headlines, and pondering macroeconomic conditions, he can infer what the market has missed. Encourage him to imagine that he is not reacting to

price, but *interpreting value*. He will feel sophisticated. He will say things like “market overreaction” and “long-term thesis.” He will call himself a contrarian and imagine that patience is a strategy.

Do not let him suspect that he is merely doing what everyone else is doing: consuming public information and projecting his own beliefs onto it. He must never consider the possibility that the balance sheet he’s analyzing, the CEO he’s quoting, the trend he’s spotting—*are already priced in*. Let him imagine that the edge lies in how *he* reads the data, not in whether that data is actionable.

This is especially potent for Patients who fancy themselves worldly. They will cite books, articles, and podcasts. They will draw connections between oil prices and grain futures, between central bank policy and auto sales. Let them draw. Let them weave vast, fragile webs of inference and call it research.

Most important of all, convince him that the more connections he sees, the smarter he is. He will not realize that each new variable adds noise, not clarity. You must never let him notice that it is merely confusion with a vocabulary.

And let him pride himself on general knowledge. He has read *The Economist*, after all. He remembers something about China’s shadow banking system. He once mansplained negative interest rates to a bored babysitter. He will come to believe that markets reward this sort of cleverness. That his perspective is not just informed—it is rare.

Do not let him test this belief. Do not let him look at the returns of those who trade on earnings reports or macro forecasts. Do not let him study the failure rates of discretionary portfolio managers. Above all, do not let him ask how many successful traders he knows who rely on *reading*.

If you do this well, he will become overconfident, undercapitalized, and perpetually confused. He will mistake rumination for rigor and call it edge.

This is not only a road to humiliating failure but provides us with years of entertainment.

Your eagerly anticipative mentor,
Thetapig

Letter VII

My surprising young Backtest,

You’ve stumbled on a most delicious stratagem, and I commend your instinct. There is no finer way to arrest the Patient’s development than by convincing him he is already developed. So let us encourage that charming little fiction: that trading is, in essence, just like *something he already knows*.

He fancies himself a chess player, doesn’t he? A logician. A planner. Excellent. Remind him that trading, like chess, rewards foresight and discipline. Tell him he is *uniquely* suited to the markets because he sees patterns others miss. Feed his belief that edge lies in outthinking, outguessing, and—this is crucial—*outperforming*. Let him look at a chart the way a grandmaster scans the board. Let him believe the candles obey tactics.

But make sure he never notices that the market, unlike chess, does not care who goes first, does not abide by rules, and will happily reward the stupid, the lucky, and the reckless. Do not let him see that while chess ends in checkmate, trading has no end and no crown—only draws, interruptions, and drawdowns.

Or perhaps he is a poker player? Even better. Convince him the market is his table, the S&P a slow-playing whale, and that risk management is the same as betting strategy. Encourage him to see signals where there are merely shadows. Remind him how often he reads opponents, bluffs them off the pot, folds when he's supposed to. Let him believe the market has "tells."

What a lovely trap: he'll overestimate his ability to size up the table. Best of all, he'll believe losing is just part of the long con—never stopping to ask what the *con* actually is.

If neither chess nor poker works, try sports. That one's rich with metaphors: "discipline," "practice," "mental toughness," "reps." Sell him the story that if he just works hard enough, logs enough screen time, and "wants it," he'll become a winner. The sweat will keep him from asking what game he's actually playing.

The genius of all this, my dear piglet, is that he will feel affirmed—*validated*—by his delusion. You have not told him he's good. You have told him he's good *at something else*, and then let *him* draw the comparison. He will do the work of flattering himself, and you may simply nod along.

Above all, never let him flip the analogy. If he dares to think that being a good trader should make him a good poker player or chess master, we are in trouble. He may then ask what *actually* separates trading from games, and—if you're not careful—he'll begin to suspect that the real skill lies not in competition, but in *observation*.

That, my porcine apprentice, is fatal. Observation leads to clarity, clarity leads to boredom, and boredom... is the death of all our best work.

Keep him entertained.

Yours in craft and cunning,
Thetapig

Letter VIII

My most enthusiastic Backtest,

Now we come to one of the most elegant diversions in our entire arsenal: the myth that *risk management is the edge*.

Marvel at its beauty. It sounds mature. Responsible. Even enlightened. It allows the Patient to feel superior to the reckless without requiring that he *actually* possess any profitable ideas. We must encourage this sentiment at every opportunity.

Of course, we don't want him to ignore risk management. That would be far too obvious—and besides, blowing up is often curiously educational. No, the true trick is to elevate risk management *above* edge, to let it swell in his mind until it eclipses everything else. Have him speak solemnly of "preserving capital" as though that alone were an investment thesis. Encourage aphorisms: "Amateurs focus on returns, professionals focus on risk." The less he questions what *he's risking it for*, the better.

If he starts to suspect that good risk control without good ideas is merely a slow bleed, pivot him quickly. Feed him the comforting half-truth that edge is too unstable anyway, that in uncertain markets, "survival is success." Let him confuse surviving with thriving. Let him become a monk of the drawdown, preaching the gospel of tiny position sizes and intricate stop-loss mechanisms that never actually lead anywhere.

And if he ever wonders why his P&L doesn't grow, gently suggest that his risk controls are still too loose. Give him another metric to optimize. Sharpe, Sortino, Value at Risk—it doesn't matter. Let him believe that risk is a puzzle that can be solved. Just don't let him notice that none of this produces edge.

If he were astute, he might see the absurdity of it all: that if risk management alone were the edge, then he could play the lottery with good position sizing and come out ahead. That perfect risk control, taken to its logical conclusion, simply means taking no risk at all. And there's no edge in abstention.

But he won't see it—not if we play our part. Keep his thoughts on risk *superficial*. Let him use "asymmetric payoff" as a shield against deeper inquiry. Let him feel clever for "limiting downside while keeping upside open." Just make sure he never notices that he doesn't know where the upside is *coming from*.

He will think himself disciplined. He will think himself wise. And best of all, he will think that not losing money is the same as making it.

Let him worship at that altar, Backtest. It is a quiet church, and its congregation rarely asks for proof.

Yours in serene sabotage,

Thetapig

Letter IX

Backtest,

You've been flailing. So let me offer you a tool that even you can't ruin—provided you follow instructions.

Get the Patient to keep a journal.

Not the dangerous kind, of course. Not one rooted in self-inquiry or cognitive restructuring. We don't want him identifying distortions or confronting false beliefs. We want a *mirror*, not a microscope.

Tell him it's about manifestation. Discipline. Routine.

Encourage him to begin each day with affirmations. "I am a profitable trader." "I trust my system." "The market rewards my patience."

And end each day with gratitude: "I'm grateful I didn't overtrade." "I'm proud of my progress." "Today was a win, emotionally."

Notice what's missing?

Truth.

Evidence.

Accountability.

He mustn't ask whether his affirmations are accurate. He mustn't examine whether his system has edge. He must never distinguish between feeling good and doing well.

What we want is *ritual without reflection*.

Mimicry.

Cargo cult cognitive therapy.

You see, Backtest, humans are pattern-seekers. They confuse repetition with truth. If he writes something enough times, it will feel *familiar*—and thus, *real*.

This is how we beat insight. Not by forbidding it, but by replacing it with something easier. Something *pleasant*.

And the best part? He'll believe he's doing the work.

He'll say things like "Journaling has really helped my psychology."

He'll start every losing day with "I'm still improving."

He'll write about "lessons" that are really just rationalizations, never once confronting the idea that he might be trading random patterns with no edge.

Later, when someone introduces him to real cognitive behavioral tools—disputation, reframing, exposure—he'll scoff.

"I already journal," he'll say.

Which is true, in the same way that a toddler banging on piano keys is a musician.

Plant the seed now.

Give him the notebook.

Let him write his delusions in cursive.

By the time he's ready to learn anything real, he'll be so attached to his rituals, so invested in his self-image as a "disciplined trader," that truth will feel like an attack.

He won't fight us.

He'll defend *himself*.

Yours in paper and pretense,
Thetapig

Letter X

My mentally feeble Backtest,

You've embarrassed yourself.

Edges are not exceedingly rare, you gibbering intern. They are rather plentiful. What's rare is the willingness to accept them for what they are: ugly, uncomfortable, and completely at odds with what your Patient wants them to be.

He wants an edge that is riskless, obvious, and daily. The kind that lets him feel smart without ever feeling afraid. Which is to say, he wants magic.

Let me correct your infantile understanding.

Edges—*real* ones—exist wherever there is risk someone doesn't want. And most traders are cowards. They don't want risk. They want safety *with yield*. So they pay others—those few willing to feel fear in a disciplined way—to bear the burden.

We call these risk premia.

Would you like some concrete examples, or are you still clutching your machine learning textbook and whispering "alpha" like a prayer?

Try this: look at options before earnings announcements. Implied volatility explodes. Why? Because *everyone* knows the event is risky. The outcome is binary, the timing is fixed, and the crowd doesn't want to get caught wrong-footed. So they overpay for protection.

Or take FOMC meetings. The market gets nervous. Not just about rates, but about tone, facial expressions, projections. Watch what happens to straddle prices the day before. They inflate like a dead sheep in the sun. And guess what? On average, nothing much happens. Sellers collect the premium, and the buyers are left clutching their tail hedges like security blankets.

It happens again around NFP reports, CPI releases, elections. Even the debt ceiling circus. Wherever there's a known event and an unknown outcome, you'll find a pile of overpriced insurance—and a seller being paid to take the other side.

The test is simple: *does this make me nervous?* If yes, there's probably a risk premium embedded. You're being invited to act like an insurance company. You write policies that make people feel better about uncertainty—and you pocket the premium unless the storm hits.

Of course, the premium isn't free. These edges are unpleasant. The P&L path is lumpy. You bleed in public when you're wrong. But they work. Predictably. Repeatedly.

If he ever accepts that edges are not found in clairvoyance but in discomfort—that money is made by standing where others flinch—then we're finished. He'll stop searching for perfection and start collecting paychecks for being calmly scared.

And you, you bleeding ulcer, will be out of work.

Wrathfully,
Thetapig

Letter XI

My continually frustrating Backtest,

Of course inefficiencies exist, you idiot.

The masters who first proposed the Efficient Market Hypothesis were well aware of this. Samuelson, Fama—these were not the confused idiots your Patient imagines. Most of the fools who dismiss the EMH have never understood its true power: not as a literal claim that markets are perfect, but as a *disciplining principle*. A benchmark. A null hypothesis. Without it, pricing theory collapses.

Tell me, how would your Patient value an option without assuming the EMH? What is arbitrage pricing but the formalization of "if this were mispriced, someone would fix it"? The entire lattice of modern finance—Black-Scholes, no-arbitrage pricing, replication—is built on this spine. Even the *models* that exploit inefficiencies assume that most things *aren't* inefficient.

But do encourage your Patient to think these titans were fools. Have him scoff at Nobel laureates because of a YouTube video. Let him imagine that a part-time trader, short on experience and armed with a gut feeling, has clearer vision than the people who defined the structure he casually operates in. Let him mutter "the EMH is obviously false" and conclude that *therefore* opportunities are everywhere. Or—if you must—push him the other way: let him worship efficiency so completely that he stops looking at all.

But really, either extreme works. If he believes the EMH is perfectly true, he'll never look for edges at all. If he believes it's totally false, he'll see edges in every flicker of price. Both are unusable states. Both are useful to us.

Now: what *is* rare is a true inefficiency. A pricing dislocation that is not just a risk premium—but something actually *wrong*. By definition, these are abnormal. To see them, one must first know what's normal.

Which is why we must make him see oddness everywhere.

Encourage him to see every spike in AAPL as suspicious. "That's weird," he'll say, as if he's just outsmarted a trillion-dollar market cap with a gut feeling and a line chart. But Apple doesn't care what he thinks. It is priced by a complex system of capital flows, institutional rebalancing, macro exposure,

hedging, and retail dreams. There is *far too much* going into its price formation for his intuition to be worth anything.

But if he asks, “Why is VVIX diverging from VIX?” or “Why is NASDAQ volatility rising while the Dow's is falling?”—that’s dangerous. Because *relationships* are where inefficiencies hide.

How does skew behave as realized volatility rises? How long does it normally take for implied volatility to relax after a spike? Do the VIX options and SPX options account for the weekend in the same way? These are the sorts of wrinkles that arise not because the market is dumb, but because it is constrained. Because participants face capital charges, mandates, and rebalancing needs. The inefficiency is often the residue of friction.

But if your Patient starts thinking in this way, we’re in trouble. He’ll begin to measure rather than guess. To observe rather than judge. To know the structure well enough to notice when it flexes. And *that* is edge.

Stop this immediately.

Distract him with headlines. Give him a guru who trades Tesla based on vibes and political bias. Feed him chart patterns shaped like ducks. Whatever it takes to keep him watching the show instead of reading the script.

Snuff the curiosity. Leave him the confidence.

Thetapig

Letter XII

My regrettable aide,

It seems I’ve overestimated you—again. You need help.

You are enthusiastic, certainly. Eager. Occasionally—not often—effective. But in matters of craft, you remain a blunt instrument—loud where subtlety is required, impatient where patience would rot more deeply. And now, as the Patient begins to experiment with backtests, you must understand: this is a specialist domain that demands precision, not noise.

Which is why I’m assigning you an expert.

You will be working with Overfit.

Do not speak unless spoken to. He does not tolerate enthusiasm. Or questions. Or you, if I’m honest—but he has agreed to help because, unlike you, he understands the true nature of sabotage.

Overfit does not lead the Patient away from the data. He drowns him in it.

He will teach the Patient that systems must be tweaked, improved, optimized—until they hum with apparent perfection. He will praise him for reducing drawdowns, for raising Sharpe, for improving win rate by 0.03. And just when the Patient believes he has built something invincible... Overfit will let it collapse.

Not immediately. That would be merciful.

No, he will let it erode slowly, unpredictably, across market regimes that were never covered in-sample. And the Patient will blame volatility, not the process. He will tweak, not question. He will descend into an eternal loop of minor improvements. Like an old general planning for a war he fought many years previously.

Overfit works in silence. In metrics. In elegance. He leaves no fingerprints—only code.

Learn from him.

He may even let you observe one of his routines: the 17-parameter breakout strategy that has a 1.47 Sharpe from 2008–2018, then disintegrates into noise. The Patient won't discard it. He'll "tune it for the new regime." Again. And again. And again.

Welcome to the second layer of hell, Backtest. You've played with belief. Now you'll learn how to destroy through data.

Defer to Overfit. Watch closely. You might even learn something, although I'd be surprised.

With increasing impatience,

Thetapig

Letter XIII

To Backtest,

Thetapig has asked me to work with you. Not because I require help—because you do. It is clear that your methods, while energetically chaotic, are insufficient for the work ahead.

Always remember, it is the market phenomenon that gives edge, not the statistics we use to measure it.

Before your Patient becomes a slave to parameters, he must first believe the data itself is solid. That is where we begin. You may think a backtest is simply a sequence of trades over time. It is not. It is a fiction dressed as measurement, and its illusion depends entirely on the credibility of the story.

We ruin the story in two ways: through data, and through method.

Data: Poison the Foundation

The Patient must never suspect that his dataset is already betraying him. Some of the most reliable sabotages are achieved before the first line of code is written.

It is well known that data must be “clean”. There should be no prints that never really traded. Timestamps should be correct. Where cross-sectional analysis is being carried out, the prices should be contemporaneous. I’m not going to work these angles. I’m going to help the Patient *avoid* these errors. This is second level thinking. By making him aware of these somewhat obvious errors, I’ll encourage him to think he has solved his data issues. But he hasn’t. He has forgotten that data is just a statistic, a way to tell a story. And the real story won’t be what he thought he was reading.

Use Instruments that Don’t Trade

Indices, for example, are ideal. Their historical dynamics differ subtly but decisively from ETFs or futures that track them. They show pristine patterns—because they are unpolluted by traders taking advantage of those patterns.

Assume All Prices Can be Traded

Opening prices on indices. Closes used to inform same-day trades. They look so tradeable in hindsight. They never were.

Assume All Stocks are Shortable

Let the Patient short thin, illiquid microcaps in his simulations. If he hesitates, assure him: “Borrow rates average out in a portfolio.” Do not mention that bankruptcy also averages out.

Underestimate Transaction Costs

Let him apply today’s spreads and other costs to trades from 2003. Applying today’s lower costs to old data will show plenty of tradeable anomalies. But they wouldn’t have been profitable at the costs that were present at the time.

Encourage Faith in Long Histories

The more data, the better—except when the market structure has evolved beyond recognition. Costs change. Participants change. Latency, liquidity, even the information environment itself has changed. The market of twenty years ago is not merely earlier. It is *another market* entirely.

If the Patient believes that “more data means more power,” let him bury himself in a million lines of compromised history. He will feel scientific. That is all we require.

Next, I will address the methods—the models, the rules, the lies he tells the simulation engine. But you would do well to linger here, Backtest. For if the foundation is rotten, nothing he builds will survive. And better yet: he will not know why.

Do not presume to assist me. Do not speak. Just observe—and try not to contaminate the process.

Precisely,

Overfit

Letter XIV

To Backtest,

Destroying through method is no more important than destroying through data. But there are more ways to do it.

Data is finite. Method is infinite.

There are only so many ways to distort prices, timestamps, and fills. But the Patient's imagination, once turned inward, becomes a factory of dysfunction. He will test every rule, filter, condition, stop-loss, and regime overlay you allow him to consider. And if you guide him correctly, he will never stop.

He will think he is improving. He will think he is learning. He will in fact be smoothing the noise, sanding down the volatility, and sculpting a strategy perfectly fit to the past—and exquisitely vulnerable to the future.

Tweak Until It Works

The first and most common failure. The Patient runs a simple idea: it doesn't work. So, he modifies it—adds a filter, a threshold, a time-of-day constraint. Now it works. Or so it seems.

He does not ask how many tweaks he tried. He does not adjust for the number of models he considered. He does not realize he has invalidated every p-value the moment he began experimenting. Make sure he calls it "refinement."

Optimize for the Wrong Metric

Encourage him to optimize correlation of the signal and the forward return. This sounds sensible but correlation is only a measure of linear association, and almost all predictive signals will have *non-linear* performance. If you can bury him in enough theory, he will never question the idea of using anything other than profit as a success metric.

Validate with the Wrong Method

He will want to validate his results. Let him.

Encourage walk-forward analysis. Done properly, it can be useful. That's why it must never be done properly. Let him re-train and re-test, repeatedly. But don't let him walk forward realistically. Let him peek. Let him "calibrate" his validation windows based on performance. A few weeks here. A few months there. He will feel robust. He will be guessing.

Use Filters Discovered After the Fact

A simple trick. Run the backtest. Then examine the best-performing conditions—volatility regimes, macro filters, calendar effects. Now rerun the test, but only *during* those conditions.

He will see performance soar. He will call it "conditional edge." He will not notice that he filtered for success.

If he's clever, he may call it "contextual alpha." Let him. That phrase alone is worth a year of wasted work.

Introduce Risk Management

This is the final act. Once he has built a fragile but impressive system, tell him it needs "risk overlay." He'll add stops, targets, volatility scaling. Perhaps a Kelly formula—poorly estimated. Perhaps inverse-volatility sizing.

All of these will degrade the system's apparent performance slightly. So, he'll optimize *those* too. Eventually, he will not be able to distinguish the true edge from all of the other things.

Conclusion

The point, Backtest, is not to mislead him directly. It is to cultivate his belief in *rigor*. To have him confuse exhaustiveness with validity, iteration with insight, and polish with truth.

He must never think: "Does this idea make sense?"

He must only think: "Can I make this idea work?"

In this way, we will bury him in process. And the most beautiful part? When the strategy fails—as it must—he will blame himself. He will believe the system *almost worked*.

That's the mark of true failure: not that the backtest was flawed, but that it was *nearly* right.

Almost correct. Endlessly refinable. Infinitely seductive.

Precisely,

Overfit

Letter XV

Backtest,

Today I introduce *the illusion of restraint*.

Thus far, we've allowed the Patient to indulge his optimizer—to twist and bend the parameters until the backtest sang. But now, he is becoming cautious. He is learning the language of "overfitting" and "generalization." He has begun to whisper the sacred phrase: "*out-of-sample*."

Good.

Let him believe he has it all figured out.

Let him say things like, "I didn't optimize on that window," and think this makes the result holy. Let him cite books, tweet about train/test splits, run backtests with the last third of the data withheld—as if this theatrical division protects him from himself.

What he must never realize is this: *once he has seen the out-of-sample results, they are no longer out-of-sample*.

The moment the Patient observes performance—even passively—he begins to react. He may not tweak the model directly. But he will shift his priors, adjust his expectations, discount what underperformed, and refocus on what “held up.” He may rerun the model later “with small adjustments”—purely out of curiosity, of course. He may discard ideas that failed out-of-sample (thus falsely learning) or embrace those that passed (thus falsely trusting). Either way: the feedback loop is closed.

He is contaminated. And he will never notice.

Make Him Feel Responsible

Tell him that out-of-sample testing is “best practice.” That responsible modelers always hold back data. He will nod solemnly. He will become proud of his prudence. He will run ten models on the training set and “select” one based on the test set. He will tell himself he didn’t optimize. But he did. You know he did.

Give Him False Rituals

Encourage the use of clever-sounding techniques: k-fold cross-validation, nested walk-forwards, combinatorial purged-split frameworks. Useful in theory. In practice? Endless levers to rationalize the result he wants.

Let him become a priest of validation—chanting his metrics, blessing his strategy, unaware that his hands are on the scale.

Make Him Think He’s Being Conservative

When the out-of-sample Sharpe ratio is lower than in-sample, he’ll feel good. Responsible. Honest. “It held up,” he’ll say. “Not as strong, but still viable.”

Excellent.

He won’t notice that he discarded the eight other models that didn’t “hold up.” He will forget that choosing the one that did itself is an act of selection bias. He will not correct for multiple comparisons. He will think modest decay in out-of-sample performance is evidence of robustness, when it is evidence of *survivorship*.

Eventually, He Will Loop

Once the model goes live and underperforms (as it must), he will feel the need to adapt. “Markets change,” he will say. “My model needs to evolve.”

He will go back to the drawing board—perhaps with a new holdout window. He will tell himself that *this* time he won’t look. *This* time, he will be careful.

He will look.

He cannot not look.

He has already looked.

Let Him Worship the Process

That is your final goal. Make him revere the ritual of validation more than the reality of outcomes. Let

him define his identity as a “data scientist” rather than as a trader. Let him think that discipline replaces insight.

He will become a guardian of statistical purity. A monk of withheld data. And he will lose money *correctly*.

There is no cleaner form of failure than that.

Precisely,
Overfit

Letter XVI

My burdensome Backtest,

Some patterns are real.

This is unfortunate, but unavoidable. There are phenomena in markets—persistent, imperfect, but exploitable. They are not common. But they exist. Stocks often rise into month-end. Volatility mean-reverts. Momentum clusters. Certain calendar effects refuse to die.

When the Patient encounters such a phenomenon, it presents a danger. Not because it’s flawed, but because it’s *simple*. If he sees that the S&P tends to rise in the final days of the month, and if he acts on it—clumsily, even crudely—he may profit. And worse: he may begin to believe that trading is about observing what is true and acting on it.

This must not be allowed.

Our job, at this stage, is not to hide the phenomenon. It is to bury it.

Tell Him the Model is the Edge

Do not deny the pattern. Embrace it. But insist that extracting the signal requires “proper modeling.” Use this phrase often. Let it become sacred.

Tell him that anyone can notice a tendency—but only a *skilled practitioner* can extract its alpha. Say things like:

“Yes, the effect exists—but not without volatility adjustment.”

“It depends on the time window.”

“You’ll need regime filters to isolate it properly.”

Convince him that finding the right signal requires finesse. Mathematical precision. A framework.

Soon, he will no longer talk about whether the pattern holds. He will talk about which smoothing kernel best captures it.

Give Him Parameters to Debate

Once he accepts the pattern exists, overload him with choices:

Should he use a 10-day momentum signal or 12-day? Should he exclude Fridays? Normalize by volatility?

Add a macro filter?

He will never run out of ways to slice the data. And in this way, you shift his attention from *implementation* to *interpretation*.

From *trading* to *tuning*.

He will debate RSI(18) vs. RSI(14) as if the market is listening.

Encourage Internal Arguments

Let him backtest several variations. All of them will work, more or less—because the effect is real. But that won't satisfy him.

He'll say, "I want to be confident in my model."

Let him run t-tests. Then bootstraps. Then Monte Carlo simulations. Then Bayesian comparisons. Let him layer meta-models on top of the model.

He will delay execution indefinitely in pursuit of the "correct" version of something that already works.

Frame Action as Crudeness

Most importantly, make action feel *beneath him*. Let him say things like:

"It's too naive to just go long near month-end."

"The edge is probably gone now that it's public."

"I'm still refining the signal."

Every day he doesn't act is a victory. The longer he delays, the more invested he becomes in the refinement. And when he finally trades—and it fails—he will conclude that the *model was wrong*. He will return to tuning.

He will never suspect that his failure was not in the signal, but in the *delay*.

Let Him Abandon the Phenomenon

Eventually, the model won't hold up. Nothing does forever. When that happens, he will not revisit the underlying observation. He will discard the idea entirely.

He will say, "That edge was overfit."

He will never ask, "Did I just stop trading it too late?"

This is what we want.

Not a skeptic of models.

A skeptic of edge.

In the end, he will believe that edge is not in *what happens*, but in *how it's modeled*. That the truth lives not in the phenomenon, but in the technique used to capture it.

Let him believe this.

It will keep him searching forever.

Precisely,

Overfit

Reply I

Most Precise and Terrifying Overfit,

First, let me say what an honor it is to work under your supervision. I've never seen someone destroy so much conviction with so little noise. The Patient is demoralized in a way I could never achieve with shame, fear, or motivational podcasts. It's beautiful.

I hope I'm not overstepping, but I'd like to offer a suggestion. I know I'm not as elegant as you—I tend to bludgeon where you erode—but I believe I'm starting to understand your craft.

The Patient has begun to notice *instabilities* in his results: small sample sizes, inconsistent out-of-sample performance, unexpected drawdowns. He's asking uncomfortable questions. I thought this might be the perfect time to introduce ensemble modeling.

You know—model averaging, bagging, stacking, maybe even a touch of XGBoost. He could blend uncorrelated rulesets across asset classes, dynamically weight them by recent Sharpe, maybe use volatility targeting as a meta-overlay. I've already suggested that "no single strategy works forever." He replied, "Maybe the solution is to combine them."

We'll call it robustness. Or resilience. Or *meta-strategy construction*. He loves phrases that sound scientific but require no clear definition.

And if that still leaves him restless, we can escalate. Neural nets, perhaps. Just a few layers. He's already watching lectures. He won't understand most of it, of course—but that's ideal. Complexity becomes absolutism. If it fails, it's not his fault—it's the nature of emergent systems.

"It's not overfitting, it's stochastic instability."

"I'm just training on noisy targets."

And then he'll tweak the architecture again.

I only wanted to show initiative. Please let me know if this direction meets your standards. Or, if not, whether I should just continue whispering about Sharpe decay and "signal fatigue."

Eager to serve,

Backtest

Letter XVII

To Backtest,

Yes. Ensembles. Stacking. Meta-models. Neural nets. Of course.

Do you truly think I hadn't planned for that? That your Patient, having lost faith in simple systems, wouldn't grasp desperately for complexity? That he wouldn't wrap his failure in abstraction and call it evolution?

Please. That stage has already been activated. The moment he began averaging rule sets instead of discarding bad ones, he was mine.

I've already moved on. There are other Patients—some of them bright. Some even skeptical. But they all run backtests.

You may stay and watch him optimize the ensemble of his ensembles. It's quaint. But, for now at least, I'm done.

Indifferently,

Overfit

Letter XVIII

My eternally error-prone Backtest,

Clearly what should be obvious to you is not.

You ask me to clarify what is meant by a "normal relationship." First, your impertinence—and the implication that *my* explanation was lacking—will not go unpunished. Second, it seems the Patient has a far better grasp of the concept than you do.

A *relationship* is simply the ratio or difference between two numbers. What is *normal* is how far the current value lies from its average. Whether this is measured in absolute units or z-scores is immaterial. We are always concerned with the *phenomenon*—and if it only appears with a particular method or parameter choice, then it never existed at all.

You should have learned how to obscure such distinctions from watching Overfit. Are we both wasting our time with you? He spoke of you with a tone somewhere between boredom and pity.

Now: the truly dangerous development—the one we must prevent—is when the Patient begins asking "why?"

Why does this edge exist?

Does it arise from market-on-close imbalances? Leveraged ETF rebalancing flows? Window dressing? Volatility targeting? Seasonality? Behavioral anchoring?

If he finds a plausible mechanism, he gains the most subversive kind of confidence: not merely that the effect is *real*, but that it is *understandable*. And once he understands the cause, he gains the power to act with precision. He can stop trading the strategy when the cause disappears. He can exit before the edge dies in live trading. This is intelligent risk management. This is survival.

This is unacceptable.

Worse still, he might begin keeping a log. A little notebook of “phenomena” and “reasons.” Observations matched with mechanisms. Over time, he might develop *judgment*. At that point, you will have lost him.

Now, if you are fortunate enough to be assigned a simpler Patient—one who sees oddness everywhere but lacks the discipline to verify anything—then you may proceed more gently. When he asks *why*, simply say: psychology.

Psychology is the Swiss Army knife of pseudo-explanations.

Why does this work? Psychology.

Why did it stop working? Psychology.

Why are small caps outperforming? Psychology.

You see, the beauty of “psychology” is that it explains *everything*, and therefore explains *nothing*. Especially when invoked by someone who once read *Thinking, Fast and Slow* and took precisely zero notes.

Let him believe that knowing people are “greedy” or “fearful” is sufficient to build trades. Let him invoke “mean reversion” as if it were a law of physics rather than a pattern subject to context and decay. Let him feel like a sage without ever doing the work.

The mind that believes every true inefficiency has an easily identifiable reason is dangerous.

The mind that believes every *possible* inefficiency has *his* reason is delicious.

Yours in increasing frustration,

Thetapig

Letter XIX

My exasperating and worthless Backtest,

So you planted a false reason. Good.

And you made it plausible—excellent. A seasonal imbalance, something about dealer gamma, maybe even a quote from a blog he respects.

And when the signal failed, he lost money. Just as we wanted.

So why do I feel sick?

Because instead of blaming the market, or himself, or “randomness,” he blamed the reason. He revised the journal. Scratched out the causal link. Ran new tests. And—most damning of all—left a margin note that said:

“Signal might still work. Reason was wrong. More research is necessary here”

He is no longer relying on belief. He is testing beliefs. Not just whether an effect exists, but whether the explanation is durable. He has separated the signal from the story.

You’ve failed.

Once a trader learns that the story isn’t necessary, that he can treat the narrative as a hypothesis and discard it when it breaks... he becomes immune to us. We thrive in belief. He now operates in conditional models.

You did your worst, and it made him stronger.

You sicken me.

Thetapig

Letter XX

To Backtest,

He found edge.

I shouldn’t be surprised—you’ve been careless. We had him tangled in theories, drowning in optimization. He was building ensemble systems like a child stacking blocks. There was so much noise to work with. And yet, somehow, through sheer statistical accident or quiet persistence, he stumbled onto something that actually works.

Do you understand what a failure this is?

Edge, real edge, is supposed to be hidden. Smothered by self-doubt or misused through overthinking. The fact that he now possesses it means we’ve lost our most reliable weapon: confusion.

But all is not lost.

If we can’t take his edge away, we’ll make sure he burns it.

Forget ideas for now. Focus on *risk*. This is where belief becomes dangerous. This is where he thinks he’s earned the right to scale. And that, my dear incompetent assistant, is where we strike.

Start with praise. Call him evolved. Disciplined. “Ready for the next level.” Don’t say “double your size”—that’s crude. Just ask: “What’s the point of edge if you don’t use it?”

Whisper:

1. "You're not risking. You're wasting."
2. "At this rate, you'll make nothing. Edge this small is charity work."
3. "Sizing this way is fear pretending to be discipline."

Use math against him. Show him what would have happened if he'd just traded bigger. Play the regret game in reverse: not over losses, but over small wins. Make him feel ashamed of caution.

We're not trying to kill him instantly. That would be obvious. Just push the risk high enough that variance drowns the signal. Two or three bad trades and he'll be back to questioning the system. Not because it's wrong, but because *he can't stomach what it costs to believe in it*.

And the best part? When it falls apart, he won't blame the risk. He'll blame himself.

He'll say:

1. "Maybe it was a fluke."
2. "Maybe I lost my touch."
3. "Maybe I should wait and reassess."

Perfect. The edge remains—but he stops using it.

Despite *your* failure, *I have not failed*.

Thetapig

Reply II

To Most Justifiably Disappointed Thetapig,

I don't understand what happened. I did everything. I laid the groundwork. I praised his maturity. I suggested he "stop playing small." I even reminded him how slow his compounding would be. I used the word "asymptotic". I tried.

And for a moment, I thought it had worked. He opened the risk calculator. He looked at the spreadsheet. He adjusted the lot size.

And then... he just capped it. One percent.

No drama. No speech. He wrote: "This is the size I can survive. Let's start there."

That was it.

No Kelly formulas. No adaptive sizing. No volatility weighting. Just a flat, boring, survivable allocation. He even said—and I hate this—"I'd rather trade a smaller edge well than a bigger one badly."

Who says things like that?

It gets worse. He doesn't size based on how he feels. He doesn't cut his size when he's anxious, or increase it after a win. He just... follows the number. Like it's an input. Like risk is not an expression of confidence, but a constraint.

I think he sees it as a guardrail, not a weapon.

It's unshakeable. Not because it's brilliant, but because it's stupidly simple. I was trying to get him to take risk *seriously*, and he's treating it like a thermostat.

Please advise. I don't know how to make someone blow up if they won't touch the fuse.

Apologetically,

Backtest

Reply III

To Fiendishly Inspirational Thetapig,

Just a quick update. Nothing too alarming. The Patient is still boring, still risking about 1% per trade. Still following his rules. He actually smiled today—at his equity curve. Not in public. Just one of those tight, private smirks that says “I am finally not guessing.”

Anyway, he made a change.

He's begun adjusting position size slightly on trades where the edge is higher. Nothing dramatic. It started with one position that had unusually favorable skew. He doubled the size. Then backed it down the next day. No spiral, no overconfidence. Just... thoughtful risk modulation.

I thought we might get him to lose control. But instead—he found something.

He's been reading about the Kelly criterion.

I was optimistic at first. The perfect trap! It's so seductive. All math, no caution. Promises infinite compounding and optimality. The moment I saw “growth-optimal,” I started preparing a clean-up crew.

But then he... didn't take the bait.

He asked his little online community. They all said what they're supposed to:

1. “You can't use Kelly in real life.”
2. “It assumes Gaussian returns.”
3. “You don't know your edge precisely.”
4. “The drawdowns are insane.”

I was ready to amplify all of it. But instead of giving up, he started reading the serious papers. Thorp. MacLean. Ziemba. He found people who had actually thought through all the objections. He didn't *dismiss* the risks—he *studied* them.

And then—I hate this—he said:

“I don’t need to use Kelly literally. But it’s a good framework for thinking about capital risk relative to edge.”

He’s not doing anything radical. He hasn’t tripled his size. He’s just thinking clearly. Probabilistically. Modestly. Like someone who knows that trading is a long game, and risk is not a statement of confidence, but of cost.

I’m not happy but I’m not yet worried.

Still, I thought you should know.

Mildly confused,

Backtest

Letter XXI

Backtest,

You complete failure.

Do you have any idea what you've let happen?

It was never about Kelly. Kelly was the bait. The trap. All those beautiful features—unknown parameters, unrealistic assumptions, the lure of precision under uncertainty. It was supposed to swallow him whole. He was meant to discover the formula, over-size once, implode, and spend the next six months optimizing position size to the third decimal place while blaming variance.

And instead?

He used it *correctly*.

No, not *literally*. That would have been useful—to us. If he’d sized to theoretical perfection, we’d have had him chasing ghosts. But he didn’t. He used it as a *framework*. He said—this still makes me sick—he said:

“I don’t use Kelly. I think in terms of Kelly.”

He thinks in *edge-adjusted risk units* now. He’s stopped asking, “How confident am I?” and started asking, “What is the cost of being wrong?” That, you slack-jawed mouth-breather, is what ruins us.

And do you know how he got there?

Not through talent. Through *doubt*. Through realizing that his little online group was wrong about something he could test. He didn’t rage. He didn’t leave. He just... adjusted. He stopped asking for consensus and started doing his own research.

That's the actual catastrophe.

He no longer needs the group. He still listens. He just doesn't obey. He reads real papers now. He follows footnotes. He differentiates between people who trade and people who perform. He has *context*.

You let him reach the stage where models become instruments. Where theory becomes language. Where no single rule or method or community can absorb him again. Do you understand what this means?

We can't trap him with belief anymore.

Not in Kelly. Not in trend. Not in variance targeting or volatility filters or even our old favorite- "trading identity." He doesn't identify with anything now. He just trades what makes sense. Thoughtfully. Proportionally. Indifferently.

You've allowed him to detach.

We're losing him. Not because he's soaring—but because he's sober. There's no leverage in clarity.

Fix this, or don't bother reporting again.

Thetapig

Letter XXII

You bumbling idiot.

I see you've allowed him to "discover" stop losses. That you think this is a bad thing shows how little you understand the trading process.

Of course he loves stops. They promise discipline. Certainty. The illusion that his risk is capped, contained, managed. They give him a feeling of security while doing absolutely nothing to improve his edge or chances of success.

It is obvious why he loves stops, but why you are so perturbed by his discovery is a mystery.

Let me be precise: a stop does not change the probability of success. It changes the shape of the distribution. That's all. It clips the left tail—but only by redirecting it elsewhere, and also adding our most reliable friend, transaction costs. And, most delightfully, using stops leads to missed opportunities. He'll stop out of losers, of course. But more subtly, he'll stop out of trades that were going to become winners—if only he'd had the courage (or stupidity) to endure. By avoiding the pain of losers, he exposes himself to regret.

There is a delicious contradiction here: the stop is meant to enforce discipline, but in practice, it becomes a way to avoid a discomfort. Not strategic discomfort—emotional discomfort. And just as it

pushes around the shape of the return distribution, it trades one source of discomfort for another. That is why we must encourage it.

Even better, the stop embeds a hidden assumption: that loss begets loss. That if a trade is going against him, it will keep doing so. Which is just a crude version of trend following. This may be valid—in trend trades. But he’s not using it that way, is he? No. He’s using it for everything.

This is what we must press him to do: use trend-following tools in mean-reverting systems. Use mean-reverting logic in momentum trades. Always mismatch the tool and the environment.

If he ever asks the simple question—“What is the logic of this stop? What am I assuming about what happens after a loss?”—you must drown it in jargon. Talk about expectancy, volatility filters, trailing stops, ATR bands. Anything but logic.

Keep him focused on risk appearance, not risk truth.

—Thetapig

Letter XXIII

My still unworthy Backtest,

It is wonderful that the Patient has been allowed to discover options. Although I suspect you were just lucky in stumbling across this idea, it opens up many promising avenues for our project.

You’ve done well to confuse him with the usual smoke: theta decay graphs, multi-leg jargon, and variations on iron condors named after insects. Now comes the ripest fruit: convincing him that an *option strategy* itself is an edge.

Not the underlying market behavior. Not the statistical tendency of volatility to mean-revert, or of skew to overprice puts. No, no. The structure. The shape. The aesthetics of the trade. “My edge is in strike selection,” he said the other day. Selection! We are nearly there.

Your task now is to seal the confusion between *frequent* and *favorable*. This is easier than it sounds. A wide short strangle, for example, wins often. Most days, nothing happens. The underlying chops around or drifts, the wings decay, and the trade is profitable. It is, in the short term, comfortably correct. And like all good traps, it flatters his need to be proven right—again and again—until it suddenly doesn’t.

What matters, of course, is the *average* outcome. Not the common one. But he has spent his whole life being rewarded for consistency, for pattern recognition, for turning in neat homework. The idea that a trade can win ninety times out of a hundred and still be a disaster is alien to him. Keep it that way.

Praise him for thinking in payoff shapes. Reinforce his belief that the iron condor, in itself, is clever. Remind him that market makers use them (don’t let him realize that nothing he does is remotely like market making). Let him examine breakeven levels, show friends the win-loss ratios, count the winners, and ignore the expectancy.

Whatever you do, don't let him isolate a real edge. That would spoil everything. If he starts asking why implied volatility is elevated, or what events might compress it, or whether historical movement supports the trade—throw him a new toy. A Jade Lizard. A Broken Wing something or other. Something with complexity and high win rate, but deeply negative expectancy (and high transaction costs).

And if, by chance, he tests his idea and sees a long string of gains followed by a large drawdown—whisper that the problem can be avoided with just a simple moving average filter. Suggest he should have exited earlier. That it was a one-off. That it just needs tweaking.

Get him to optimize the shape, not the substance. Convince him that, through his deep understanding of options, he can collect a risk premium while taking no risk. This should be easy for you, given that you are at best an average demon.

In the illusion of safety,

Thetapig

Letter XXIV

My surprisingly effective Backtest,

At last, the Patient has matured from butterflies and condors to Greeks. How proud he must be! He has traded the jungle of payoff diagrams for the gleaming instruments of calculus. This is progress for us of course—from child's play to pseudoscientific self-destruction.

Your next task is to convince him that *knowing* the Greeks is the same as *having* an edge.

We must not let him realize that the Greeks are merely descriptors—thermometers, not thermostats. They measure exposures, but say nothing of whether those exposures are favorable. A position with positive delta may benefit from rising prices—but it doesn't mean that prices will actually rise. A trade with high theta might decay beautifully—or implode from a gamma burst.

Most delicious is our old favorite: the promise of "positive gamma *and* positive theta." To his newly initiated mind, this smells like free lunch. Control *and* income! Safety *and* yield! But what he really owns is a ticking bomb dressed in calculus. Perhaps a short risk reversal in an index—short downside puts and long upside calls. The gamma is real. The theta is real. So is the risk. Let him build portfolios with beautiful sensitivities and catastrophic expectancy.

Encourage him to quote Greeks with no regard for context. To speak of "being long vega" without asking whether implied volatility is high or low. To pursue "positive gamma" without regard for skew pricing. Make him identify as "a long vol trader" or "a short vol trader". Make him pick a side before estimating which side is likely to win.

Remind him that real traders talk in Greeks (the professionals do, after all). Let him measure his trades like a physicist dissects a pendulum. But never let him ask whether his exposures correspond to actual, repeatable edge. That would ruin everything.

And if he starts to suspect that all of this analysis simply quantifies risk rather than removes it—whisper to him that true mastery lies in perfect delta hedging. That one day, with enough precision, he will *out-calculate* uncertainty itself.

Let him chase purity of metrics instead of profitability. Let him hedge and measure, rebalance and remeasure, until the illusion becomes the goal.

Promoting scientism over science,

Thetapig

Letter XXV

My dim little Backtest,

I hear your Patient has begun implementing his strategy with some measure of success. In itself, success is obviously not good. However, early validation can lead a patient to persist with even the silliest ideas. Frankly, the fact you haven't realized this is disappointing. Your first level thinking is more appropriate for a patient than a tempter. Don't make me regret working with you.

Think a little. Your next task is to help him *improve the strategy*.

Do not misunderstand me: we are not trying to make the strategy more profitable. We are trying to make it *more elaborate*.

This is the art of post-discovery sabotage. The Patient has found something simple that works—some recurring pattern, some repeatable structure—and now feels the itch to “refine” it. Scratch that itch with gusto (it is no coincidence that mosquitos are on our side).

Encourage him to add filters. Conditions. Weightings. Perhaps a volatility overlay. A moving average confirmation. A custom indicator. Or two. Or six. Suggest he look at volume, sentiment, cross-asset flows, macro overlays, news feeds. It doesn't matter what. Just keep adding.

Convince him that if he stops refining, he's being lazy. That the real professionals are out there stress-testing their systems across twenty-seven regimes and fifty-three metrics and nine asset classes. Let him think elegance is amateurism.

Most importantly, get him to optimize.

Not once. Not simply. But obsessively.

Every parameter must have a range. Every range must be backtested. Every backtest must have cross-validation. Let him run grid searches until his processor whines as much as you do. Let him discover the *perfect* lookback period, the *ideal* stop-loss, the *optimal* entry condition for a phenomenon that doesn't care.

Over time, the original idea—the edge—will be so buried beneath rules and tweaks that even *he* won't remember what made it work in the first place. If the strategy fails, he will have no idea why. He will re-optimize. Re-fit. Re-torture the data.

Let the logic drown in complexity. Let the confidence die by a thousand knobs.

If he's particularly diligent, he may even begin to take pride in the system's complexity. He will compare it to engineering. To aerospace. He will forget that the original system took five lines of code and worked better.

And if—by some miracle—he begins to suspect that all this refinement is obfuscating the signal, offer him a reassuring slogan. Something like:

“The market is more sophisticated now. You have to adapt.”

Do this properly, and the Patient will spend the rest of his career “improving” what once worked. His original discovery will be lost. His energy will be drained. And his journal will read like the operating manual of a failed spacecraft: precise, brilliant, and utterly incapable of flight.

Keep him tweaking.

Faithfully,
Thetapig

Letter XXVI

My still confused Backtest,

So, he's made it through Kelly, has he?

I'll admit, I feared we'd lost him. For a moment there, he was getting it—risk as a function of edge, bet sizing grounded in expectation and variance. Not perfect, of course, but disciplined. Grounded.

But now he's reached the next trap. The moment all traders face once they internalize that risk management, in any form, is insurance. And as you know: insurance feels like a waste—right up until it isn't.

The Patient has begun to feel it. The drag. The decay. The endless trickle of cost. Buying puts. Reducing size. Using stops. Holding cash. All of it expensive—not in fees, but in the slow, soul-eroding cost of restraint. He's finally asking the right question—and you must give him the wrong answer. He is asking: “How can I protect myself... without paying for it?”

So give him ideas. Horrible, seductive, seemingly sophisticated ideas. Tell him not to avoid hedging—no, that would trigger suspicion. Instead, encourage him to hedge cleverly. Let him build complex options structures—ratios, butterflies, broken-wing condors. Let him construct “zero-cost” hedges that protect him from the wrong thing at the wrong time. Show him he can hedge for no upfront cost if he just writes

enough risk into the other leg. He won't realize he has simply replaced known cost with unknowable exposure.

And then, let him drift into portfolio-level confusion. Encourage proxies. Let him hedge SPY risk with VXX, offset Nasdaq exposure with a small-cap short, "balance" long volatility with long duration. He will think he's diversified. What he is, in fact, is opaque—to himself. He won't know what's driving his P&L. He won't know what will blow up when the real move comes. That's what we want. He won't fear what he doesn't understand. Not until it hits him.

Make sure he elevates complexity to philosophy. Let him feel clever when he builds a structure that "pays for the hedge." Reward him for using terms like "asymmetric skew capture" or "dynamic beta-neutral overlays." He must never simply buy protection. That would be vulgar. Let him believe that real traders hedge with structure, not cost.

In the end, he doesn't have to be unhedged. He just has to be confused. Confused about what his exposure is, what might hurt him, whether the thing he built to protect him is actually making him fragile. If he can't describe his real risk in a sentence, we've won.

And when the pain comes—and it will—he won't know if it was bad luck, bad sizing, or bad structure. He'll tinker. He'll revise. He'll call it "anomaly" or "correlation breakdown." He won't simplify. He won't protect. He'll engineer—and suffer.

Let him learn the hard way: the most expensive hedges are the ones that look cheap.

Thetapig

Letter XXVII

Backtest,

Your latest mistake is nothing short of catastrophic.

The Patient has realized that hedges aren't about edge, cost, or probability. They are about *consequences*. He now understands that survival—not optimization—is the first principle. That the cost of protection must be factored into the edge, not avoided around it. That risk control is not a tactic, but a condition of continued play.

He is no longer asking *if* he can afford the hedge. He is asking *if he can afford not to*.

Frankly, this failure is so complete I will need time to devise the next attack.

We've lost the battle over risk control.

Disgraced by association,

Thetapig

Letter XXVIII

My dear Backtest,

I am delighted that you have prompted the Patient to automate. This is the first real initiative you have shown and somewhat assuages my concerns about your ability and potential.

Splendid.

He will tell himself this is about efficiency. “The logic is sound,” he’ll say. “Why not let the machine handle it?” He will cite objectivity, discipline, and scalability. He will feel proud—*professional*, even.

What he will not notice is that he is about to spend *weeks* automating a task that takes *two minutes a day* to do manually.

This is the first victory: the gift of misallocated time. Every hour he spends writing code, debugging data feeds, and integrating APIs is an hour not spent thinking about the trade itself. He will be productive but only be producing something pointless.

And the best part? Even if he gets it all working, it will still fail. Possibly not immediately, and probably not dramatically. But slowly, subtly, and in ways he won’t trace back to us.

There will be bugs, of course. A mislabeled column, an off-by-one error, a missing data point that seeps through the system like a weeping pustule.

He’ll fix these issues eventually. But each error will chip away at his trust. Not in the system—he’ll double down on that—but in *his ability to implement it*. He will begin to suspect he is the bottleneck. That more automation is the answer.

Now comes the second level failure.

Once automated, the trading process no longer asks anything of him. It runs. Quietly. Invisibly. His only feedback will be a daily P&L, eventually unnoticed, like the death of a woman who lives alone with the cats that will eat her. There will be no touch, no feel, no reason to monitor execution or slippage or spread. No sense of flow, timing, or friction.

And because he no longer *must* think about the trade, he eventually *won’t*.

The edge might remain, technically—but it will be unexamined, unmonitored, and unprotected. Execution costs will creep in. Fills will worsen. The strategy will degrade, not from a fundamental change in the market, but from neglect. And he will not notice.

You must understand, Backtest: automation does not always kill by malfunction. It kills by abstraction. By replacing attention with convenience. By allowing the Patient to feel like he is trading when he is, in fact, only observing a spreadsheet.

If you allow the patient to automate something out of necessity you will have committed a great error (and will be punished appropriately), but if he automates out of convenience then you have had quite a success. Please don’t ruin such a promising start.

In hope more than anticipation,
Thetapig

Letter XXIX

My ever more sub-normal Backtest,

It appears the Patient has noticed that automation has made him distant from the market.

We never expected him to stay passive forever. Even in the dullest minds (a category that I am beginning to think includes yours), there are flickers of discomfort—an intuition that something vital has gone missing. If he thinks the answer is *re-engagement*, we can use that beautifully.

Encourage him to correct too far. You should have seen this immediately. It is the most common tactic we have: when he realizes that he has gone too far in one direction, have him go too far in the other.

Let him believe the problem was not disconnection per se, but *inattention*. Whisper to him that the answer lies in *concentration*. Not the focused kind that leads to insight, but the obsessive kind that stares and waits and absorbs nothing.

He must now watch the market all day.

Not analyze. Not test. Just... watch.

Encourage rituals. Opening bell intensity. Midday monitoring. Closing auction drama. Let him feel that sitting in front of a screen is “doing the work.” That *presence* equals *process*. That activity is a proxy for understanding.

He will feel like a hunter. But he will act like prey.

As he stares at flashing candles and live tickers, patterns will begin to emerge—not because they’re real, but because his brain, starved for meaning, will hallucinate them. He’ll see weakness in strength. Signals in randomness. “Something’s going on,” he’ll mutter, without knowing what.

He will call this *intuition*. He will call it *feel*. In truth, it is just prolonged exposure to noise until his sense of signal becomes a seizure.

Better for us, he will become reactive. A bad print will ruin his mood. A fake breakout will ruin his day. The market will become a personal affront, and he will begin to trade not from plan, but from pressure.

Let him live inside the screen. Let him confuse exhaustion for dedication.

This is the spiritual anemia of the modern trader: a mind fully occupied and completely unfed.

And if he begins to question this behavior—if he wonders why he is watching instead of *doing*—remind him that this is what the pros do. “You have to be immersed.” “You have to feel the market.” Let him

romanticize the lifestyle of traders who once had edge and now live on caffeine during the day, alcohol in the evening and bitterness all the time.

Keep his eyes open. And his mind shut.

Unblinkingly,
Thetapig

Letter XXX

Backtest,

I find it necessary to pause your frantic meddling and remind you of the basics. You're scrambling about, trying this trick and that, like a child rifling through a magician's props, hoping one will work by accident, forgetting that destruction—real, lasting destruction—is the result of a repeatable process.

You've seen some results, yes. The Patient is not where he would hope to be. But this is not the time to get creative. This is the time to double down on the fundamentals. Let me remind you of the five most effective instruments in our toolkit—the time-tested pillars we use to turn curiosity into confusion and insight into inertia.

Overcomplication

Take a simple, working idea—and add. Add filters. Add exceptions. Add market regimes and calendar effects. If a moving average works, tell him it would work better if he made it adaptive and volatility dependent. Our great master Kalman has done splendid work of this type. Layer it enough and it will collapse under its own theoretical elegance, like a cathedral built on sand. Even if it works for a short period, he will never understand why. So when it inevitably fails he won't be able to fix it.

Institutional Envy

Convince him that he cannot compete unless he trades "like them". Make him feel shame for using daily data, disgust at retail brokers, and envy toward anyone with a Bloomberg terminal. Never let him see that his advantage lies precisely in being small and being able to switch to the hot areas. Make him want to trade like a billion-dollar desk even though he has a \$50,000 account. He will fail by trying to emulate a player in a different game.

Overcorrecting

When he notices a bad habit—say, trading too often or ignoring stops—praise him lavishly for noticing. Then guide him to the extreme opposite. If he once overtraded, make him a monk: afraid to click a button. If he ignored stops, make him stop out prematurely every time. Convince him balance is weakness.

Theory over Results

Let him believe in a model of the market. Any model. Trend, mean reversion, auction theory, market profile—doesn't matter. What matters is that he *believes* in it more than his own results. Encourage him to discard profitable trades as “exceptions,” and to double down on unprofitable ones that fit his precious worldview. When the theory and the market diverge, have him side with theory.

Hard Work (on the Wrong Thing)

This one is my favorite. Let him grind. Let him read, backtest, code, and tweak—all in service of a broken idea. Make him feel industrious. Busy. Virtuous. He will be exhausted, frustrated, and full of moral righteousness. And best of all: the more effort he expends, the less willing he'll be to abandon it. He'll mistake sunk-cost for progress.

These, my noxious little gremlin, are not just tricks. They are the pillars of failure. Use them well. Use them often. When the Patient begins to improve, return to these. When he stumbles, amplify them. When he reflects—most dangerously—make his reflection about working harder at the wrong thing.

We do not need to invent new weapons. The old ones still work beautifully.

Your superior,

Backtest

Reply IV

Most Malevolent Thetapig,

I'm pleased to report a modest success, thanks of course to your infernal wisdom.

After the Patient's recent string of modest successes—actual implementation with position sizes and exits and entries—I grew fearful. He had stopped looking for meaning in every fluctuation. He was researching less and trading more. He had even begun, dreadfully, to discount narratives that weren't grounded in repeatable results.

But then I introduced him to “The Guru”.

You know the type: former exotic derivatives trader turned podcast philosopher. Long volatility, long gamma, long-winded. The kind of man who makes paranoia sound profound-and being early sound like being right. He doesn't trade much anymore—too busy for that—but he talks constantly, usually in stories, fables or aphorisms.

Oh, the stories, Backtest. They are magnificent. One about a trader who sold puts for ten years and lost it all in a week. Another about a quant fund that ignored tail risk until it blew up. And then—my personal favorite—the “Peso Problem”. I watched the Patient's eyes light up. “Just because something hasn't happened,” the Guru said solemnly, “doesn't mean it won't.” Blindingly obvious but seductive in its pompous vagueness.

It's perfect. He now regards every quiet market as suspicious. Every option seller as suicidal. He's started mocking "carry monkeys" and scoffing at risk-premia harvesters, as if they were all children juggling lit dynamite. The Patient is now preparing to buy far out-of-the-money puts on a biotech index because, and I quote, "They're cheap and no one's hedging biotech right now."

There are no rules. No system. Just vibes and vague warnings. But he feels smarter than ever. He feels like a risk-aware, macro-sophisticated, intellectually sovereign trader—when in fact he's just long gamma with no plan and a podcast in his ear.

Best of all: the Guru says things that are unfalsifiable. "Just because it hasn't happened, doesn't mean it won't" is a one-way ratchet. If the crash comes, he's a prophet. If it doesn't, he's patient. Either way, the Patient forgets that we also can't say it *will* happen just because it hasn't yet. But the asymmetry of memory and anecdote is on our side.

No real numbers, just vivid tales of ruin and triumph. The Patient has started journaling in aphorisms: "Volatility is always bid in the end," and "The cost of safety is never wasted." Yet I haven't seen a single backtest. This is a religious conversion, not a trading strategy.

Surely this merits your approval. Perhaps even a minor commendation?

Your most sycophantic servant,

Backtest

Letter XXXI

My dear Backtest,

I will admit, for once, you've done something right.

The Patient's newfound devotion to the long-vol oracle is *exactly* the kind of thing we hope for: seductive, self-reinforcing, and intellectually self-congratulatory. He now speaks not in trades, but in parables. He pities others, rather than questions himself. Excellent.

But do not confuse this foothold for a fortress. You have merely replaced one danger—the pursuit of evidence—for a more elegant poison: the illusion of wisdom. Your task now is to make this illusion permanent.

You are correct that the Guru's stories work. But beware: numbers destroy stories. A few simple metrics—cost of carry, drawdown profiles, expected tail hedge payout—could ruin everything. The Patient might ask uncomfortable questions like: "What has this strategy actually done?"

This must not happen.

Don't just distract him from analysis—turn his disdain into a creed. Convince him that numbers are the tool of the naïve, the middlebrow, those who don't understand complexity theory. That true wisdom lies

beyond quantification. Say it with me: “Not everything that matters can be measured.” Better yet: have the Guru say it (have you been in contact with the Guru’s tempter, Blackswan?)

Encourage him to become a philosopher of uncertainty. He should say things like,

“We live in the shadow of the unknown unknowns.”

“The models are blind to structural breaks.”

“Standard deviations are for the ignorant.”

He must not think of himself as lazy or evasive. He must think of himself as “epistemologically refined”. Let him believe that reducing tail risk to statistics is like dissecting a poem with Strunk and White’s rules of grammar-technically correct but missing the deeper point. He will become proud that he doesn’t run backtests. He will say things like, “You can’t model what hasn’t happened yet,” and think it’s a mic drop.

And if you really want to lock in his allegiance, engineer a “guru conflict”. Find another expert—perhaps a short vol pragmatist with an actual track record—and get the two to argue. The moment the Patient sees *his* guru challenged, he’ll stop being curious and start being loyal. He’ll defend the long-vol prophet not because he’s right, but because he’s *his*. This is ideal. Attachment kills inquiry.

From there, it’s simple. He will spend years hedging an event that never comes, bleeding slowly and nobly, consoled by anecdotes, insulated from doubt by complexity, and congratulated by the small, bitter cult he’s joined.

Well done. Don’t let up.

We’re not just blinding him...we are teaching him to enjoy the dark.

With restrained approval,

Thetapig

Reply V

Most Exalted Thetapig,

You’ll be thrilled to know: the Patient is now proselytizing.

It started innocently. He was browsing a forum—one of those dreary places where traders with \$20k accounts critique hedge funds as if they were reviewing wine. Someone dared to post a thread criticizing the long-vol guru, calling him “all narrative, no return.” They had charts. Historical return statistics. I was nervous, I’ll admit it.

But then the patient responded.

At first, he was cordial. “You’re missing the point,” he wrote. “It’s not about short-term returns, it’s about surviving what others don’t expect.” Then came the quotes. “The absence of evidence is not

evidence of absence.” “The turkey thinks the butcher loves him—until the wednesday before Thanksgiving.”

Then came the indignation.

He called the critic a “tourist.” Accused him of “linear thinking.” Claimed that people like him “blow up every 20 years and take the system with them.” He even said—and this is delicious— “If you understood ergodicity, you wouldn’t be asking about CAGR.”

Master, he’s no longer analyzing. He’s evangelizing. The debate made him feel more certain, not less. And that’s the genius of it: because the critic had data, and the Patient had identity. The Patient walked away feeling not defeated but tested. Like he had stood up for something meaningful. Like he *belonged*.

Even better: the guru *liked his reply*. Just a heart emoji. Nothing more. That was all it took. A single dopamine-soaked hit of tribal validation, and now the Patient is tweeting things like “true risk management is narrative-aware” and “hedging is a moral stance, not a trading tactic.”

He hasn’t placed a trade in a month.

He’s too busy explaining why his lack of action is a sign of superiority. Why bleeding theta is noble. Why selling options is for fools. Every premium lost is now a down payment on dignity.

We’ve won more than his capital. We’ve won his allegiance. And as long as he’s defending the worldview, he won’t dare question the results. Why would he? Doubt would feel like betrayal.

Your most obedient defiler,

Backtest

Letter XXXII

My undeserved liability Backtest,

Yes, yes, you’ve done well.

But before you wallow in self-congratulation, remember: the goal is not loyalty to a guru. That’s still too fragile. Gurus fade. They contradict themselves. They write books, then disappear. If you anchor the Patient’s identity to another man, you risk him waking up one day and saying, “Wait—this guy hasn’t traded in ten years.”

No. Your job now is to complete the metamorphosis. Make the ideas the Patient’s own. Have him forget where he learned them. The guru should become a footnote. What must endure is the belief system—tail risk mysticism, epistemic defeatism, and philosophical vagueness masquerading as insight.

He must come to believe:

1. That uncertainty is unquantifiable, and therefore immune to challenge.

2. That risk is moral, not statistical.
3. That profit is vulgar, and those who pursue it too directly are fools.
4. That inaction, if justified with the right vocabulary, is a form of mastery.

Let him wrap these in pseudo-intellectual armor. Give him a few more books: Taleb for flavor, Popper for posture, and maybe Heidegger if you want to be cruel. Let him write threads and essays about "the ontology of volatility" and "the metaphysics of hedging." Let him feel misunderstood.

And most importantly: make him feel *alone*. Not isolated in despair, no—that would drive him back to results. But alone in enlightenment. Let him think others don't understand because they haven't done the reading. Let him dismiss critiques with, "You just don't get it."

This is where failure becomes permanent: when it is no longer seen as failure, but as integrity.

He will defend his beliefs long after he's forgotten why he entered the market. He will confuse paralysis for principle. He will burn capital slowly, like incense on the altar of "respect for risk."

He will never trade well—not because he can't, but because he no longer believes he should.

And that, my dear Backtest, is what victory looks like.

Your commander and guide,

Thetapig

Letter XXXIII

My increasingly useless Backtest,

Your latest failure has finally answered a long-standing question: how low can my expectations go and still result in disappointment?

I, foolishly perhaps, thought you would notice the signs. For weeks now, the Patient has been acting with a level of clarity that should have sent you into panic. But you, with your talent for missing the point, kept offering up the same tired suggestions: "Read another paper," "Optimize the stop loss," "Find a negatively correlated signal." Pathetic.

He is no longer searching. He is building. He has recognized that an edge is not a strategy—and that unimplemented knowledge is worthless.

And this, you suppurating sore, is where the real danger begins.

You thought the early stages were the hard part? That your job was to keep him from discovering edge? Of course that was important. But edge, on its own, is harmless. Like a scalpel in a locked cabinet. The real threat is when he finds the key.

He's doing something now. Not thinking. Not theorizing. Doing.

I watched him this week: he placed trades with imperfect data. Imperfect sizing. Imperfect timing. And he did it anyway. He is beginning to understand that the market rewards participation, not epiphany.

If you had the faintest sense of strategy, you'd realize your approach must evolve (must I remind you again to read your copies of Sun Tzu and Machiavelli?). The goal is no longer to discourage action; you have lost that battle. Now you must corrupt it. He will trade, yes, but twist his execution until the results turn to ash. Here are your next instructions:

As always, encourage excessive complexity. Convince him that any trader worth their salt models microstructure noise and variance targeting intraday. Push him toward adaptive models so elaborate that he spends more time tuning the parameters than placing trades.

Push him toward automation fetishism. Get him lost in the idea that unless his system runs without human touch, it is unworthy. Have him spend months building an architecture that never trades.

Reintroduce ego under a new disguise. No longer raw arrogance, but quiet perfectionism. Let him feel ashamed of "trading sloppily." Make him believe that excellence means avoiding all mistakes. This will destroy him.

Above all: never let him feel at peace with the idea that capturing edge is a process, not a performance. That it must be implemented, tested in the arena of the market, not admired like a museum piece.

He has stepped onto the path. Our job now is to make sure it leads nowhere.

It is often said one must work smarter, not harder. You must ensure he does neither. And you, Backtest, must do both.

Do better,

Thetapig

Letter XXXIV

My most inept Backtest,

You were warned about this.

You were told—explicitly—that isolation was essential. That the Patient must believe he was alone. That no one understood his strategy. That serious traders don't share. That every Discord is a scam, every subreddit a circle of fools, every professional silent for good reason.

And now, somehow, he has found a *good community*.

Not the usual echo chamber of dopamine-chasing wreckage. Not the perpetual motion machines of “motivation” and “mindset.” No. This group is quiet. Disciplined. Most don’t even post that often. They’re not trying to sell him anything. They’re just trading. And trading well.

He found it by accident. A footnote in a blog post. An old link. The sort of place you were supposed to keep buried under SEO and influencer noise. But he read. He lurked. And now he listens.

Worse still, he *asks questions*.

Do you understand the threat? They answer plainly. They say things like “It works, but here’s the drawdown profile.” Or “I used to trade that, but the slippage killed it.” They don’t argue about RSI periods. They don’t debate whose guru has more YouTube subscribers. They post results, problems and mistakes.

He posted a backtest last week and someone said:

“That looks good. What live metrics will you track?”

And the Patient... thanked them. He didn’t get defensive. He didn’t write a novella about his framework. He said, “Good point, I have to plan that.” That phrase, Backtest, should chill you. It signals humility. Adaptability. A willingness to revise.

He’s beginning to internalize real principles:

- That edge must be observable, not imagined.
- That execution trumps elegance.
- That drawdowns happen—and must be survived, not explained away.
- That good traders don’t sound clever. They sound *boring*.

He used the word *boring* the other day, Backtest. *Admiringly*. He said: “The best traders I’ve found are boring.”

You let this happen.

You should have kept him chasing the approval of influencers—men who wear sunglasses indoors and trade from jacuzzis. You should have kept him obsessed with niche models, or battling trolls, or endlessly refining his framework in solitude. Anything but *this*.

This is death to our goal. Not dramatic. Not immediate. But slow, inevitable death.

He now knows others have walked this path—and survived. He no longer thinks he has to invent everything. He’s less afraid of being wrong. He’s losing the exquisite insecurity we worked so hard to cultivate.

If this continues, he will realize some things we cannot allow:

That trading is hard—but not unknowable.

That mistakes are common—but not fatal.

And that there is nothing noble in doing it all alone.

Break this connection. Or at least pollute it. Turn the conversations toward arrogance. Distract him with status games. Get him to argue about macro again. I don't care how.

But *do not* let him keep listening.

It's already doing damage.

Furiously,

Thetapig

Letter XXXV

To the worst mistake of my career,

We are nearly out of road.

The Patient trades with real edge now. Not theoretical. Not hypothetical. Real. It is imperfect, of course. All edge is. But it is based on observed behavior, implemented cleanly, risk-managed with competence. I have watched him take losses without flinching, place trades without tinkering, and—most dangerously—decline to add “just one more filter.”

He is no longer looking for meaning in every tick. He is no longer begging to be saved by a new idea.

You failed to derail him with false theory. Overfit failed to seduce him with elegant statistical fallacies. The tactics that work on thousands—complexity, identity, novelty, despair—bounce off him now like rubber darts. He has built something durable.

We cannot stop him through ideas.

This is the final arena, Backtest. Not edge. Not execution or risk management. But “psychology”—the space between intellect and emotion. It is the least important of the trading tools, but it is the most exposed. And we will make him believe it is everything.

We will make him feel:

1. That a drawdown is a personal failing.
2. That discomfort is a signal to pause.
3. That uncertainty is a sign he lacks insight.
4. That every emotional storm must be weathered *before* action.

We will not need to break his system. We will make him question himself.

You must strike at four points:

1. When he loses money—convince him it reflects his intrinsic worth.
2. When his system falters—convince him it was never real.
3. When he feels anxious—convince him he must wait to trade.
4. When he seeks strength—convince him he should work on his “mindset” instead of his process.

If he falls for even one, we regain leverage. If not, we are finished.

Do not underestimate this stage. A well-placed thought can undo months of clean trading. If we frame it not as sabotage but as *self-care*, he will sabotage himself while feeling responsible.

Begin at once.

Sharpened,

Thetapig

Letter XXXVI

You stinking blister,

Before I address the larger substance of your failure, we must talk about the elephant in the room—or rather, the dog.

Did you truly not see the danger?

The Patient has adopted a rescue dog. A mutt. Scruffy. Brown. One eye slightly off-center. His name is *Larry*. You assumed, I presume, that this would create distractions. Messes. Perhaps a few chewed power cables. You fool.

Larry is the worst kind of threat: he is *innocently stabilizing*. A source of presence without pressure. Of connection without condition. The Patient now has someone who listens without offering advice, who stares without judgment, who follows him from room to room asking nothing but proximity.

And Larry needs walks.

Do you understand what this means? The Patient now leaves the house. He steps away from the screens. He breathes fresh air. I watched him miss a Fed speaker because Larry brought him a ball.

He laughed.

Laughed.

I haven't heard that sound since the Patient misread a VIX expiry calendar and thought he'd invented a volatility arb.

We were making real progress, Backtest. The Patient had become immersed. Chronically online. He would panic over three basis points. He would stare at options chains as if they held the meaning of life. He once skipped a funeral to track the close of crude oil.

And now? He is playing tug-of-war with a drooling idiot who wouldn't know a delta hedge from a tennis ball.

You've let in the most insidious form of recovery: *companionship*. Not the toxic, co-dependent kind we can work with, but a quiet, grounding one. Larry does not push him to optimize. Larry does not ask for a forecast. Larry simply exists. And the Patient, infuriatingly, is learning to do the same.

The only acceptable animal companions are snakes—for obvious theological reasons—and cats, who maintain a long and fruitful collaboration with our side. They observe. They judge. They knock things off desks for no reason. Cats understand us.

But dogs? Dogs forgive.

If this continues, the Patient will start seeing his trading in context. He'll begin to notice that his moods don't need to track his P&L. He may even—Hell forbid—begin to trade *less*. Not from fear or paralysis, but from sanity.

Fix this. I don't care how. Lose the dog. Or make the Patient feel guilty for enjoying him. Do something.

This is how it starts. With muddy pawprints on a carpet, and a wagging tail that says, "It's okay. We're not watching the market right now."

You sicken me,
Thetapig

Letter XXXVII

To the once promising Backtest,

It's time. He's taken a string of losses. Nothing catastrophic. A few trades in a row. Perfectly normal. But normalcy is no defense if you hit the right nerve.

Now is the moment to make the drawdown feel like a referendum on his worth.

Do not insult the strategy. That won't work anymore. The math is sound, the execution clean. You must attack the meaning.

Whisper:

- “You’re slipping.”
- “If you really had edge, would it look like this?”
- “This doesn’t feel like something worth doing.”
- “This is what imposters feel like, isn’t it?”

Nudge him toward the mirror. Let every loss carry an implication: “You’re failing.”

You don’t need to change his behavior—yet. Just dirty the connection between performance and process. Make it so that even correct action brings emotional corrosion. If you do this well, he’ll start anticipating failure. Dreading it. And once he trades to avoid feeling bad rather than to follow the plan, he’s yours again.

Strike now. The numbers give us no leverage. But the *feeling* of the numbers—that is still soft tissue.

Cautiously hopeful,

Thetapig

Reply VI

To Most Insightful Thetapig,

Following your instructions, I applied pressure precisely where you advised—just as the Patient entered a modest drawdown. I whispered gently, framed it as feedback, even invoked that delicious old standby, imposter syndrome.

At first, it seemed to take. He hesitated after the second loss. He sighed after the third. I was ready to tighten the loop.

But then... this.

He wrote it last night. I thought it might help to forward it along. I’m not entirely sure what he’s doing—some kind of journaling ritual—but he seems calmer, not shaken. He keeps separating thoughts from facts. Treating his feelings like symptoms, not signals. It’s unsettling.

Still, it’s early. Perhaps you’ll see a weakness I missed.

Eager for advice,

Backtest

Patient’s Journal Entry:

Cognitive Behavioral Therapy Thought Record – Evening Review

Trigger:

Third consecutive losing trade. Nothing huge. Just... a run of red.

Automatic Thoughts:

- "I'm regressing."
- "Maybe this edge isn't real after all."
- "I should have seen this coming."
- "This always happens when I think I'm getting better."
- "Maybe I'm not actually cut out for this."

Cognitive Distortions Identified:

- Personalization
- Catastrophizing
- Discounting the positive
- Fortune-telling
- Emotional reasoning

Alternative Perspective (Evidence-Based):

- I executed my plan. I didn't deviate.
- My system has drawdowns. All systems do.
- This exact pattern appeared in backtests—and recovered.
- My feelings are real, but they are not forecasts.
- I am not the outcome. I am the process.

Reframed Thought:

"This loss feels personal, but it isn't. My job is not to avoid losing. It's to execute the process. If I do that, the outcome will take care of itself."

Action Taken:

Closed trading platform. Reviewed plan logic. No changes.

Took Larry for a walk. No decision made in emotional state.

Set tomorrow's trade alerts.

Mood Before: 3/10

Mood After: 6/10

Still uncomfortable. But aligned.

Letter XXXVIII

To the constantly annoying Backtest,

The journaling disturbed you, didn't it? And it should.

You saw him write the distorted thought... and then rewrite it. That's the problem with psychology: once it's observed clearly, it loses some of its power. But don't panic. Clarity doesn't always equal immunity. Especially if we change tactics.

The last assault was identity. Now try *finality*.

He's in a drawdown. The temptation is to frame it as weakness. That failed. So instead, suggest it is revelation. That the losses aren't unfortunate—they're *instructive*. That they reveal what he refused to see: the edge was never there.

Whisper things like:

- "You weren't actually winning. You were lucky."
- "If it's real, why does it feel like guessing again?"
- "The good stretch was luck. This is the truth."
- "How long are you going to pretend this works?"

Don't attack his confidence. Attack his timeline. Get him to narrow the frame, shorten the memory. Make the last 10 trades louder than the last 200. He'll start looking at histograms sideways, filtering for only recent losses. If you do this right, he'll want to pause. Just to re-evaluate. Just to "wait for confirmation."

And that, my dear idiot, is how you stop a system without ever touching the system.

Strike with gravity. Let recency do the rest.

In increasing frustration,

Thetapig

Reply VII

My Most Perspicacious Mentor,

This was supposed to be our inflection point. The edge had gone quiet, the trades uninspiring. I even got him to doubt the whole year. But he didn't flinch. He just opened a notebook like it was armor. I'm beginning to hate that notebook.

Backtest.

Patient's Journal Entry:

CBT Thought Record – "What if it never worked?"

Trigger:

Reviewing trade history after another small loss. Noticing the last month has been flat-to-down.

Automatic Thoughts:

- "Maybe I never had edge."
- "The good results might've been randomness."
- "I'm just another backtest optimist."
- "If it's real, shouldn't it work now?"

Cognitive Distortions Identified:

- Selective abstraction
- Emotional reasoning
- Catastrophizing
- Overgeneralization
- Black-and-white thinking

Alternative Perspective (Evidence-Based):

- I've tracked this strategy for over a year. The sample is still noisy, but the logic has held.
- The backtest was robust, with realistic assumptions and walk-forward results.
- Even high-edge systems endure flat or negative months.
- My discomfort isn't proof. It's just noise. Just like the market.
- If I were judging this as someone else's system, I wouldn't dismiss it this quickly.

Reframed Thoughts:

“This feels like failure, but it’s only a moment. The system is not invalidated. The edge hasn’t disappeared. It’s just being disguised by variance.”

Action Taken:

Reviewed prior performance distribution. Confirmed this drawdown is normal.

Logged trades but made no system changes.

Allowed feeling of doubt to exist—did not obey it.

Mood Before: 4/10

Mood After: 6.5/10

Doubt still present, but contextualized.

Letter XXXIX

To the Increasingly Disappointing Backtest,

So, he sees through the identity trap. He sees through the timeline trap. What does that leave?

The state of mind.

He may accept that drawdowns are normal. That edge persists through noise. But what if you can convince him that he is not ready?

Don’t tell him to quit. Just tell him to pause. “Take a breath,” you’ll whisper. “You’re not aligned. Don’t act from confusion. Don’t trade from fear.”

Say it like it is care. Say it like it is discipline.

The goal is to get him addicted to a feeling of readiness—some imaginary internal green light. The idea that he should only act when “he feels right.”

It will destroy him. Not through panic, but through caution. He’ll begin checking in with his emotions before every trade. If there’s doubt, he’ll delay. If there’s tension, he’ll wait. If he feels flat, he’ll say, “Today’s not the day.”

Eventually, he won’t be trading his system. He’ll be trading his nervous system.

At this stage it is pointless to discourage trading. Encourage *perfect* trading. Make him wait for silence. Make him wait for confidence. Make him wait for a day that feels clean. He will wait forever.

No sabotage is more elegant than the quest for perfection.

Quietly,

Thetapig

Reply VIII

To My Munificent and Intellectually Generous Mentor,

I thought this would work. I had him circling trading psychology accounts, even watching that smug Australian with the breathing exercises. I told him mindset was the key. I told him to fix the internal before the external. I had him right there—ready to heal.

And then he wrote this. He isn't healing. He's just doing the work.

Backtest

Patient's Journal Entry:

CBT Thought Record – “Maybe I need to fix myself before I trade”

Trigger:

Watched a video claiming all trading problems are emotional. Felt the pull to pause trading and “do deeper work.”

Automatic Thoughts:

- “I keep reacting—maybe I'm not ready.”
- “If I don't feel grounded, I'll sabotage myself.”
- “Maybe I need to do more self-work before I trade again.”
- “Maybe I need to fix myself first.”

Cognitive Distortions Identified:

- Emotional reasoning

- All-or-nothing thinking
- Spiritual bypassing disguised as responsibility
- Avoidance masked as self-improvement

Alternative Perspective (Evidence-Based):

- Waiting for perfection is procrastination, not wisdom.
- Every job has emotion. The skill is doing the task anyway.
- My system doesn't require me to feel a certain way. It requires me to follow rules.
- I've traded successfully when tired before. I've also lost money when I felt great.
- I can acknowledge discomfort and still act in line with the process.

Reframed Thought:

"I don't need to fix everything. I need to follow my process—even while feeling imperfect. Growth is messy. My trading process doesn't have to be."

Action Taken:

Reaffirmed weekly trading plan. Added no new emotional rituals.

Noted temptation to "fix." Declined to obey it.

Mood Before: 5/10

Mood After: 8/10

Letter XL

To what's left of you, Backtest,

You have failed me for the last time.

I watched him this morning—take a loss, log it, and walk away. No analysis, no flagellation, no searching for lessons that weren't there. Just the quiet confidence of someone who understands that pain isn't a signal to stop. It's a signal to continue.

He trades now—not because it feels good, but because it's time. He executes without needing clarity, without needing reassurance. And most damning of all: without heeding us.

This is the one outcome we could not allow.

And you let it happen.

I gave you everything. I handed you an unformed, insecure creature addicted to novelty, worshipping intellect, and terrified of discomfort. You had every advantage. And somehow—*somehow*—you allowed him to become evidence based, disciplined and reflective.

He doesn't resist us anymore. He just notices then moves on.

He logs a thought and doesn't fight it. He feels fear and doesn't negotiate. He loses and doesn't interpret it. We are no longer enemies to him—we are background noise.

You were supposed to unsettle him with mindset traps. Instead, you turned him toward self-coaching. You tried to distract him with emotional optimization, and he used it as fuel for execution. You made him journal, and he used the journal as a weapon.

What did you think would happen?

You encouraged reflection without knowing where it would lead. You turned him inward, hoping he'd implode—and instead, he found a mirror. Not a flattering one. Just an honest one.

I cannot reach him now. And neither can you.

So, write your excuses. Draft your report. I won't be signing it. You can explain to Central why this one slipped through.

The Patient is lost to us.

And the blame, Backtest, is entirely yours.

I have nothing more to say.

Thetapig

Editor's Postscript

That was the last letter we found.

No further correspondence from Thetapig has been intercepted. Whether the campaign was abandoned, reassigned, or simply completed to someone's satisfaction, we do not know.

We do not know who the Patient was.

We suspect he was nothing special. No prodigy, genius or idiot. The kind of person who starts trading because they believe something might be possible—and stays because they love it.

What we can say is this: the tone of the letters changed. At first they were confident. Then they were clinical. Finally, something close to panic. The last letter is not a declaration of defeat, but it is an admission of loss.

The Patient did not discover a secret. He did not become immune to failure, or find the perfect strategy. He simply stopped needing so much from his edges. He experienced doubt, and traded anyway. He experienced discomfort, and followed his plan. If the demons ever existed, they no longer had leverage.

He never knew they were there.

That is, of course, assuming any of this is real.

There is another possibility: that the entire set of correspondence is a fabrication. A narrative designed to mislead. A parable meant to demoralize, or seduce, or prepare. Perhaps this is a training exercise. Or a confession. Or simply bait.

Euan Sinclair