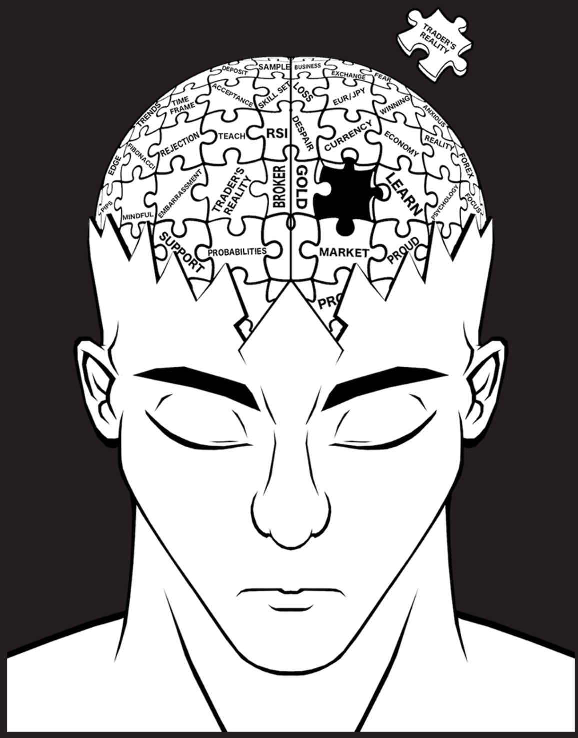
Distillation of Trading in the Zone

Summary
by

@swissbeats93



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Preface

P.S: These are notes that I took whilst reading Trading in the Zone, they're not meant as a stand in for the book but to highlight its importance.

What I've discovered is that, at the most fundamental level, there is a problem with the way we think. There is something inherent in the way our minds work that doesn't fit very well with the characteristics shown by the markets.

Those traders who have confidence in their own trades, who trust themselves to do what needs to be done without hesitation, are the ones who become successful. They no longer fear the erratic behavior of the market. They learn to focus on the information that helps them spot opportunities to make a profit, rather than focusing on the information that reinforces their fears.

While this may sound complicated, it all boils down to learning to believe that: (1) you don't need to know what's going to happen next to make money; (2) anything can happen; and (3) every moment is unique, meaning every edge and outcome is truly a unique experience. The trade either works or it doesn't. In any case, you wait for the next edge to appear and go through the process again and again. With this approach you will learn in a methodical, non-random fashion what works and what doesn't. And, just as important, *you will build a sense of self-trust so that you won't damage yourself in an environment that has the unlimited qualities the markets have*.Most traders don't believe that their *trading problems are the result of the way they think about trading or, more specifically, how they are thinking while they are trading*.

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Objectives

- To prove to the trader that more or better market analysis is not the solution to his trading difficulties or lack of consistent results.
- To convince the trader that it's his attitude and "state of mind" that determine his results.
- To provide the trader with the specific beliefs and attitudes that are necessary

to build a winner's mindset, which means learning how to think in probabilities.

- To address the many conflicts, contradictions, and paradoxes in thinking that cause the typical trader to assume that he already does think in probabilities, when he really doesn't.
- To take the trader through a process that integrates this thinking strategy into his mental system at a functional level.

Trading in the Zone presents a serious psychological approach to becoming a consistent winner in your trading. I do not offer a trading system; I am more interested in showing you how to think in the way necessary to become a profitable trader. I assume that you already have your own system, your own edge. You must learn to trust your edge. The edge means there is a higher probability of one outcome than another. The greater your confidence, the easier it will be to execute your trades. This book is *designed to* give you the *insight and understanding* you need about *yourself and the nature of trading*, so that actually doing it becomes as easy, simple, and stressfree as when you're just watching the market and thinking about doing it.

30. In a few sentences explain why most traders either don't make money or aren't able to keep what they make.
A: I wouldn't outright classify it as greed but generally how we think of making profits. We always look at trades as standalone instances and as such we always try to squeeze as much profit as we can from that single trade forgetting that the market has infinite opportunities to enter and therefore more opportunities for profits.

Chapter 1

The Road to Success

Fundamental Analysis

The problem with making trading decisions from a strictly fundamental perspective is the inherent difficulty of making money consistently using this approach. For those of you who may not be familiar with fundamental analysis, let me explain. Fundamental analysis attempts to take into consideration all the variables that could affect the relative balance or imbalance between the supply of and the possible demand for any particular stock, commodity, or financial instrument. Using primarily mathematical models that weigh the significance of a variety of factors (interest rates, balance sheets, weather patterns, and numerous others), the analyst projects what the price should be at some point in the future.

The problem with these models is that they rarely, if ever, factor in other traders as variables. People, expressing their beliefs and expectations about the future, make prices move—not models. The fact that a model makes a logical and reasonable projection based on all the relevant variables is not of much value if the traders who are responsible for most of the trading volume are not aware of the model or don't believe in it.

Technical Analysis

A finite number of traders participate in the markets on any given day, week, or month. Many of these traders do the same lands of things over and over in their attempt to make money. In other words, individuals develop behavior patterns, and a group of individuals, interacting with one another on a consistent basis, form collective behavior patterns. These behavior patterns are observable and quantifiable, and they repeat themselves with statistical reliability. Technical analysis is a method that organizes this collective behavior into identifiable patterns that can give a clear indication of when there is a greater probability of one thing happening over another. In a sense, technical analysis allows you to get into the mind of the market to anticipate what's likely to happen next, based on the kind of patterns the market generated at some previous moment.

As a method for projecting future price movement, technical analysis has turned out to be far superior to a purely fundamental approach. It keeps the trader focused on what the market is doing now in relation to what it has done in the past, instead of focusing on what the market should be doing based solely on what is logical and reasonable as determined by a mathematical model. On the other hand, fundamental analysis creates what I call a ”reality gap” between ”what should be” and ”what is.” The reality gap makes it extremely difficult to make anything but very long-term predictions that can be difficult to exploit, even if they are correct. In contrast, technical analysis not only closes this reality gap, but also makes available to the trader a virtually unlimited number of possibilities to take advantage of.

The technical approach opens up many more possibilities because it identifies how the same repeatable behavior patterns occur in every time frame—moment-tomoment, daily, weekly, yearly, and every time span in between. In other words, technical analysis turns the market into an endless stream of opportunities to enrich oneself.

Chapter 2

Chapter Two Title

Chapter 3

Chapter Three Title

Chapter 4

Chapter Four Title

Chapter 5

Chapter Five Title

Appendix A

Appendix Title