

Trading/Investing Psychology

What is Trading Psychology

Trading psychology refers to the emotions and mental state that help dictate success or failure in trading markets. Trading psychology represents various aspects of an individual's character and behaviours that influence their trading actions. Trading psychology can be as important as other attributes such as knowledge, experience, and skill in determining trading success.

Understanding Trading Psychology

Greed can be thought of as an excessive desire for wealth, so excessive that it clouds rationality and judgment at times. Thus, this characterization of the greed-inspired investor or irrational trading assumes that the greed emotion can lead traders towards a variety of suboptimal behaviours. This may include making high-risk trades, buying shares of an untested company or technology just because it is going up in price rapidly, or buying shares without researching the underlying investment.

Conversely, fear causes traders to close out positions prematurely or to refrain from taking on risk because of concern about large losses. Fear is palpable during bear markets, and it is a potent emotion that can cause traders and investors to act irrationally in their haste to exit the market. Fear often morphs into panic, which generally causes significant sell offs in the market from panic selling.

Regret may cause a trader to get into a trade after initially missing out on it because the stock moved too fast. This is a violation of trading discipline and often results in direct losses from security prices that are falling from peak highs.



Question:

1. Is greed good in trading/investing?

- Yes
- Sometimes
- No
- None of the above

2. What should one avoid during trading/investing?

- Fear of missing out
- Greed
- Doubt
- All of the above