THE MENTAL GAME OF TRADING

A System for Solving Problems with Greed, Fear, Anger, Confidence, and Discipline

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THE MENTAL GAME OF
TRADING

ALSO BY JARED TENDLER

The Mental Game of Poker

The Mental Game of Poker 2

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Hi Audible Listener,

Thank you very much for downloading the audiobook of The Mental Game of Trading. I hope you find it valuable.

To assist you in getting the most out of the book, I've put this PDF together so you can reference material included in the physical copy that may be harder to fully grasp just from listening. This includes illustrations, graphs, and samples of tools that I use to help traders identify and break down their problems with greed, fear, anger, confidence and discipline.

To access other downloadable material, including worksheets of the tools that you'll learn about in the book, or if you'd like to stay up on my latest blogs, podcasts, or projects, go to: https://jaredtendler.com.

Wishing you all the best!

Jared Tendler
May 10, 2021

From a mental and emotional standpoint, one of the biggest differentiators between B- and C-game is that, in B-game, you have the impulse or thought to make a C-game mistake, like forcing a trade or closing one too early, but instead you retain the presence of mind, mental energy, and emotional control to avoid it. In C-game, your emotions are too strong, and you can't stop yourself from forcing or getting out too early. While in A-game, the impulse or thought doesn't happen, or it's so small you barely notice.

The graphic below summarizes the points I've just made and labels the types of mistakes that show up in each level of your game.

C-GAME	B-GAME	A-GAME
OBVIOUS MISTAKES	MARGINAL MISTAKES	LEARNING MISTAKES
CAUSE: Mental or emotional flaws caused your emotions to be too intense, or your energy was too low	CAUSE: A blend of weakness in your tactical decision-making and mental or emotional flaws	CAUSE: Unavoidable weakness in your tactical decision-making

The key to unlocking the backend of your game and eliminating your most common errors in execution is correcting the performance flaws that cause your C-game. Even if you're a seasoned trader with 20-plus years of experience, some performance flaws still cause your worst mistakes. This is true regardless of whether your mistakes are significantly less awful than the mistakes junior traders make. Every trader has performance flaws, no matter how experienced or skilled.

You can't escape the gravitational force of your C-game by focusing solely on improving your trading knowledge and skill. If you improve only on the technical mistakes that exist in your C-game, your performance flaws will continue to generate the same level of excess emotion. You'll make different, but still obvious, mistakes.

CREATING THE MAP

So how do you actually track your emotions to map them? By noticing, examining, and writing down what's going on before, after, and during each of your trading mistakes. Here are some of the things you might capture:

- Triggers
- Thoughts
- Emotions
- Behaviors
- Actions
- Changes to your decision-making
- Changes to your perception of the market, opportunities, or current positions
- Trading mistakes

Shine a spotlight on the period of time when these errors take place and analyze all of these details that show up before and after them.

At the beginning you may be able to only recognize a few signals. For example, with FOMO, you might spot:

- An antsy, nervous sensation in your stomach
- The thought, *Don't miss another one!*
- A change to a one-minute chart

Your starting point is what it is. By continuing to pay close attention, over time you'll be able to see more and more of these signals. Here's an example of what you want to map:

- **Trigger:** Trading options intraday
- **Thoughts:** *I can't believe this is happening. I'm not letting the market stop me—I'm going to get this trade right!*

- **Emotions:** I want revenge when any trade I know has an edge doesn't pay off
- **Behaviors:** I'm hyper-focused on one position
- **Actions:** I'm constantly looking at PnL
- **Change in decision-making:** I'm focused on getting revenge and getting my money back
- **Change in market perception:** I'm reading too much into price action, convinced I can predict price movement
- **Mistake:** I'm taking the same trade over and over, until it's clear I'm wrong or getting nowhere

Before the next time you trade, think back to previous instances where the errors happened, and start writing out those details as best you can. This way you can immediately avoid repeating some of these mistakes.

When beginning this process, many traders can't yet spot the signals that occur before their execution breaks down. For example, they don't realize they're angry until they slam their mouse after closing a position they should never have been in, and saying out loud, "Are you kidding me? How the hell could I do that again?" If that's all you can currently map, then the next time you make a mistake like this, be ready to capture the preceding details.

The moments after making mistakes provide a tremendous opportunity to identify how you actually got to that point. What compelled or triggered you to get in that trade? Was it preceded by a series of losing trades, after closing out a big winner, or seeing others making money in a trade you missed? What thoughts, behaviors, actions, emotions, or changes to your perceptions of the market and decision-making, and things you say out loud appeared at that time? When your mind explodes, it's a great time to become a detective and gather clues. Plus, the act of writing things down can actually help to defuse the emotion.

Your job gathering clues doesn't end until you have a complete map of your pattern, including the initial trigger. Achieving that level of

In the next section you'll learn about a concept that I created early in my career as I was thinking about how to communicate the learning process to poker players. The Inchworm Concept forms the foundation of an organized and logical structure for learning. For the seasoned traders out there, this theory may be obvious in practice. But many of my clients have found that it illustrates their existing efforts to improve, and this, in turn, helps them become more efficient at developing their expertise.

THE INCHWORM CONCEPT

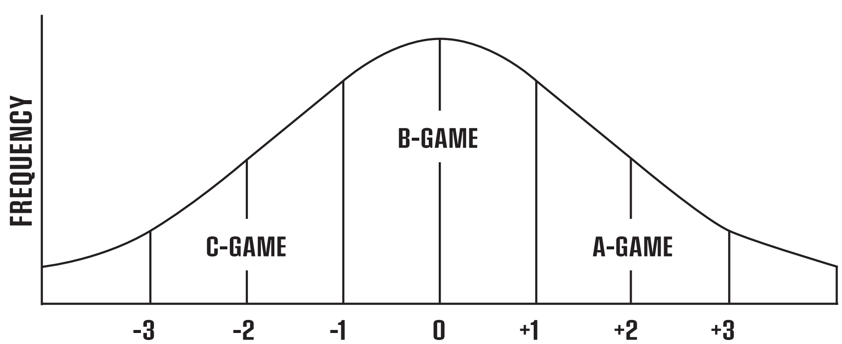
The Inchworm Concept is literally based on the inchworm, a caterpillar that moves in a distinct way. If you've never seen the way an inchworm moves, it starts by stretching its body straight, anchoring the front "feet," and then lifting up from the backend. It then bends at the middle to bring the two ends closer together, anchors the back feet, and then stretches its body straight again to take another step forward. An inchworm looks like a bell curve that moves.

As it relates to trading performance, a bell curve can show the natural variation that exists in your decision-making. Think for a moment about the quality of your trading decisions over the last 6 to 12 months, or longer if you only make a small number of trading decisions per month. To illustrate a point, let's say you were able to accurately rate the quality of all of these decisions on a scale of 1 to 100, where 1 represents your worst decisions and 100 are your best, and then plotted them on a graph. What you'd see is a bell curve showing the variation in your performance from best to worst, and everything in between.

This defines your current range of decision-making. All the knowledge and skills that you're currently learning exist within that range. Every day you show up to trade, you're bound by your range. There's a limit to how bad your decisions can be, and there's a cap on how good your decisions can be as well.

As a trader with 10 years of experience, it's no longer possible, under any circumstance, for you to think about a trade as rudimentarily as you did when you were six months in. From a performance standpoint, there's a proverbial stop-loss limiting how bad a decision you can make.

And on the flip side, when you were a trader with six months' experience, you couldn't wake up one day and suddenly think about a trade as well as a trader with 10 years' experience. Sure, you could execute the same trade, but the decision-making process to get there would be significantly different. The capacity to shrink nine and a half years of experience into one day doesn't exist.



In chapter 1, I talked about your A-game, B-game, and C-game. The bell curve illustrates how each level looks on a graph, and the Inchworm Concept helps you see, track, and improve performance over time.

The concept of Inchworm comes in when you look at how improvement happens over time. A bell curve is a static snapshot of your performance over a defined period of time and shows how frequently you were trading well, at average, or poorly. Improvement is the forward game from your tactical skill. Here's a sample to give you an idea of what it looks like:

A- TO C- GAME ANALYSIS

MENTAL GAME		
C-GAME	**B-GAME**	**A-GAME**
Distracted	Overthinking	Very relaxed
Risk averse (hesitating)	Attention on wrong market	Decisive
Forcing trades to overcome hesitance	Losing focus	Patient
No patience	Missing obvious trades	Confident
Negative self-talk	Looking at PnL	Trusting gut
Self-doubt	Reacting slower	
Trading PnL	Going against gut	

TACTICAL SKILL		
C-GAME	**B-GAME**	**A-GAME**
Keep chasing price	Worse understanding of context, correlation, or location	Clear understanding of context of the market as a whole
Keep fading directional moves	Scalping for a few ticks, but no big trades	Clear understanding of correlations with NA, ES and DOW
Cutting trades too soon because I want to get paid	Not aware enough to sit out or pick my spots	Clear understanding of location, price levels, and where we are on the chart
Didn't follow loss limit rules	Cutting trades too soon and not giving it enough room	Letting price come to me
Making impulsive trades because I'm overreacting to one element	Too much attention to depth	Seeing trapped traders
Scaling without planning for price going against me	No good read on volatility	

You also don't need to have details for all 10 levels. Most traders that I work with aren't able to distinguish their pattern to that degree. Complete as many as you can, making sure you complete a minimum of three. Here are some questions to distinguish the differences in each level of greed:

- What triggers the initial urge to force profits at level 1? How does it then increase or accumulate to reach higher levels? For example, after closing your second winning trade of the day, you start thinking about having a career day and ignore your strategy. As a result, you move your profit target on an existing position. When it pays off, you start blindly entering trades, assuming you'll win.
- What are the signs that greed is small and still manageable?
- What are the signs that greed has become uncontrolled, completely disrupting your execution?
- How is your perception of the market, opportunities, or current positions different when your greed level is higher?
- How does your decision-making process differ at level 1 compared to levels 5 and 10?

Then take the details you've categorized and put them into a map like this:

GREED LEVEL

Describe the thoughts, emotions, things you say, behaviors, and actions that highlight each level of greed. Complete at least 3 levels.

1: Start thinking about the utility of money. Wanting to lock up the gain. I want to have that big trade to secure the profit and achieve better returns to see progress.
2:
3:
4:
5: Wonder if I should move my profit target. Really close, I could secure in now, but I could move the target farther away. If I push the trade further, I'll be secure for longer.

6: Wonder if I should trail my stop; I don't want to give anything back. More irritated with people when they ask about my trading.
7:
8: I give up my trading plan, but maintain a clear stop and profit target so it's still safe. Much more personal; is the market with me or against?
9:
10: I want to make the absolute best return, right now. Give up all control and am only focused on making money right now. No longer-term thinking.

TECHNICAL LEVEL

Describe the quality of your decision-making, perception of the market, opportunities, or current positions at each level of greed.

1: No change.
2:
3:
4:
5: Start feeling emotions in terms of my trading plan; there's an urge to change things.
6:
7:
8: Don't have a plan; it's all based on how I feel the market is moving. Move stop and profit targets. Perception is more about money.
9:
10: Manually manage the trade; looking every single minute to try to get the best price by looking at every single change in the market. Looking at every 5- or 10-min candle vs. 1- to 4-hr candle. (Trades usually last from 1 day to 2 weeks.)

Some of you will assume this step is impossible because your signs of greed are all extreme. The small signs are there; you just can't see them yet. This is an iterative process. Continue to work the process by paying close attention to the buildup. Remember, one of the best times to do this is after an instance where greed got the better of you. Be a detective. Look at why it reached that point, and the signs you could detect next time.

Once complete, you have a solid draft that you can use while you're trading to **recognize your pattern and quickly respond with the correction.** Since these patterns can take a lot of experience and training because it gives him a good feeling, like he's making progress and knows what he's doing.

For Max, greed gets worse after a string of break-even or losing trades. He wants to make the absolute best return right now, and he loses sight of the long-term strategy or the value of having made a plan. He can't wait, and will eagerly take a marginal trade.

Between our first and second sessions, Max worked incredibly hard to map his pattern of greed and was able to distinguish 10 levels. The sample map from the previous section was a draft that he put together prior to our first session. Here's the second version:

GREED LEVEL SECOND VERSION

1: Logging into my brokerage account to have a brief look at the PnL I am currently running in a trade. Feeling good if it's positive, but not negatively impacted if it's a loss.

2: Start thinking about the utility of money. Wanting to lock up the gain. I want to have that big trade to secure the profit and have better returns to see progress.

3: Thinking about how much more % or $ return I need to cover expenses this month and next month. I feel excited about these trades and think this is great, I'm back on the ball.

4: Wonder what other people will think of my trade—other traders, family, investors. I am happy to talk in depth about my position with others instead of being brief and humble. **I want to share and be a show-off about it.**

5: Wonder if I should move my profit target. Really close, I could secure it now, but I could move the target farther away. If I push the trade further, I'll be secure for longer.

6: Wonder if I should trail my stop, I don't want to give anything back. More irritated with people when they ask about my trading. I stay in front of the computer, even if I don't need to monitor how the market is moving.

7: I don't want to lose or give back money to the market, so I keep thinking nonstop about my trade. I am hunched over, looking at my screen and don't do a lot more than stare at live charts. I can't get myself away from them.

8: **Trading feels much more personal, like the market is with me or against me.** I give up my trading plan but maintain a clear stop and profit target, so it's still safe.

9: I think the market is controllable; I think I can understand the flow of the market—whenever it goes higher or lower, I can predict it. Staring at my screen, snapping at people as soon as someone talks to me.

10: I want to make the absolute best return, right now. Give up all control and I'm only focused on making money right now. No longer-term thinking.

In Max's original map, the first signal of greed was thinking about the utility of money, but now that's at level two, and the first cue is looking at the PnL of an active trade. This is important, because it enables him to correct greed sooner, while the scale is small.

Looking at the deeper emotions fueling his greed, you'll notice the two sentences in bold provide the clues. Greed is fueled by a weakness in confidence. Max has reasonable aspirations, but the deep urgency to prove himself causes him to make decisions outside his strategy. In chapter 7, we'll pick up his story and show how he was able to eliminate greed and make significant progress with his confidence.

Let's look at another trader. When I first met Chris, who is from the U.S., he had been trading full-time for about seven years. He typically day-trades stocks and U.S. index futures, and swing-trades forex and options. For Chris, greed compelled him to ignore preplanned targets and try to hit a home run. More times than not, it hurt him. But he couldn't help it. The threat of regret carried a lot of weight and forced him to push too hard to avoid missing out on what could be a home run.

The roots of his greed were planted before he became a full-time trader, when Chris sold way too soon out of a stock that he had planned to hold. Within a month of selling, the company was acquired and the gains would have been life-changing.

A decade had passed, and yet the pain was still fresh. As we analyzed why, also looking at the reasons why he would cycle through periods of overconfidence and lack of confidence, and the times he would get pissed off and doubt his strategy, all roads led to one place—an expectation of perfection. In chapter 7, you'll see how Chris resolved the pain yourself against someone else, you're at risk of over- or underestimating what you're capable of. Doing this will make your strategy less accurate.

You don't need to have details for all 10 levels. Most traders that I work with aren't able to distinguish their pattern of fear to that degree. Do a minimum of three and as many more as you can. Here are some questions to distinguish the differences in each level of fear:

- What triggers the initial worry or doubt at level 1? How does it accumulate or increase to become anxiety or fear? For example, maybe it begins with normal uncertainty related to the market, but then your second loss of the day triggers worry about future losses, which leads to a fear that maybe you can't cut it anymore, so you feel like you *have* to make money in the next trade.
- What details are present when fear is still small and manageable? What details are present when it's a monster, completely disrupting your execution?
- How is your perception of the market different when your fear is higher?
- What specific trading mistakes can you avoid at level 1 but can't stop from happening at level 10?

Take what you've categorized and put them into a map, like the one below:

FEAR LEVEL

Describe the thoughts, emotions, things you say, behaviors, and actions that highlight each level of fear. Complete at least 3 levels.

1: Looking at the charts and asking myself if taking this position was the right decision. Did I do the right thing? Is this going to be a loser?

2:

3: Wondering why is the market going against me? I look at my live trades a lot more often than I need to. Start to worry that I'm going to have to accept the 1% loss.

4:

5: Log on to my brokerage account to see how much I have lost over the last few trades.
6:
7: Urge to move stop to breakeven; really want to avoid another loss.
8: Want to take profit as soon as it's running decently green. I want to secure profits to be able to prove to myself I can still do it, that I am able to make money from my trading.
9:
10: Staring at my charts and not really thinking at this point.

TECHNICAL LEVEL

Describe the quality of your decision-making, perception of the market, opportunities, or current positions at each level of fear.

1: Not seeing things objectively. Clouded judgment that a change in the market means I did something wrong.
2:
3: Emotional thinking about past losses; start to disregard probabilistic thoughts.
4:
5: Become distrusting of my own strategy and need to talk to others, like my mentor, to be reassured of where my edge comes from.
6:
7: Mostly focused on guaranteed profits or breaking even.
8: No longer thinking rationally.
9:
10: No longer thinking at all.

Step 3

You now have a solid draft that you can use while you're trading so you can **recognize your pattern and quickly respond with the correction.** Since these patterns can take a lot of experience and training to correct, don't revise your map until you get consistent evidence that it has permanently changed.

Now, use what you identified in this section to focus on the specific types of fear that are most relevant to your trading. I strongly advise that you start by reading through all of the types. Why? Because you may identify with issues that you didn't realize you had at first glance. And, you may remember additional details to add to your map. Then go back and reread the sections most relevant to you.

If you have trouble answering this, or if some ideas don't immediately come to mind, the next time you take a loss, go through this list again. Ask yourself some pointed questions:

- What else do you feel like you've lost?
- Are you afraid to tell somebody about the loss?
- Are you worried about your ability to make money?
- Are you worried you're going to make even more mistakes now?
- Does it feel like your progress or goals are less likely to be achieved?

Traders are often surprised by how intensely they can fear losing. Identifying and accepting the full picture of what's on the line for you can normalize your reaction. But for many of you, that won't be enough to solve your fear. Instead you'll make the classic mistake of trying to break through your fear by throwing caution out the window, and the pendulum will swing too far in the other direction. You'll become defiant in the face of fear. While that takes the feeling of fear away, you're now at risk of making different mistakes.

Finding the sweet spot between fear and defiance happens automatically when you correct the flaws that contaminate your perspective on losing. Below are several performance flaws that commonly contribute to the fear of losing. Traders with particularly intense fear often have multiple flaws affecting them. Be sure to work through each one that's relevant to you.

Here's an example of a Mental Hand History highlighting a fear of losing:

1. **What's the problem:** I have a need for a trade to be green right from the beginning. My heart rate jumps once I get into the trade, and it goes through the roof if it's immediately in the red. When it's moving in the wrong direction, I get nervous that it's going to get stopped out.

2. **Why does the problem exist:** Part of me thinks the first second of a trade represents what is going to happen in the trade. If it's green, I relax, which is stupid, but really I just want it to hit. Every loss feels like a step backward—like it's going to take me longer to hit my goals.
3. **What is flawed:** I can't control the outcome of every trade. If I make a good bet, that's all I can control. I'm going to lose a lot. That doesn't mean my goals are at risk. One trade tells me nothing about what the year is going to look like. That's like judging the outcome of a baseball game on the first pitch.
4. **What's the correction:** Stay focused on quality execution. Once I'm in, go look at a snapshot of the trade, so I can evaluate the quality of it without being distracted by the chart. If I made a good bet, take the hit, and look for another opportunity.
5. **What logic confirms that correction:** Quality execution in the short term is how I get what I want in the long run. Losses and drawdowns are part of the game—any game, for that matter. Champions don't fear losing; they do everything they can to win.

Pain of Losing

Losing is painful enough that you can fear the feeling of losing itself. Traders tend to be ultra-competitive. While you know it's not possible to profit from every trade, you don't like losing. Losing money never feels good.

Losing sucks and some traders reflexively try to avoid the pain of it, similar to how they would immediately, instinctively, limp to avoid the pain of a badly sprained ankle. The fear of losing is essentially protection from the pain of losing, and the equivalent of limping is quickly taking profit, sizing smaller, or avoiding higher risk trades.

There are better ways to reduce the pain of losing. But on some level, for people who are highly competitive, the pain will always be there. It will never feel good. And that's fine. The goal then becomes more about to hesitate and second-guess your entries and exits, risk calculations, or other inputs, because you don't want to "make a mistake like that" again.

This desire for complete control creates a binary way of coding performance: correct or incorrect. And let's be real—this game isn't that simple. There's a lot that's out of your hands and out of your control. But there are ways of gaining more control, and one way is to change the way you code mistakes. The following chart, introduced in chapter 1, is a great alternative to that binary coding because it describes three categories of mistakes.

C-GAME	B-GAME	A-GAME
OBVIOUS MISTAKES	MARGINAL MISTAKES	LEARNING MISTAKES
CAUSE: Mental or emotional flaws caused your emotions to be too intense, or your energy was too low	CAUSE: A blend of weakness in your tactical decision-making and mental or emotional flaws	CAUSE: Unavoidable weakness in your tactical decision-making

As a reminder, A-game mistakes are caused by something technical—for example, knowledge you haven't yet gained or a recent change in the market you haven't yet identified. These are "learning mistakes" that couldn't have been prevented and are an inherent part of the learning process.

In your B-game, you have some emotional chaos holding you back from your A-game, but not enough to fall back into your C-game. And there's some degree of tactical error—something that you need to learn but may not be super obvious. The errors found in your C-game, however, are so obvious there's nothing for you to learn tactically. Instead, mental and emotional flaws cause these mistakes.

To fix this problem, you need to train yourself to identify and categorize your mistakes this way. Using this chart reduces the likelihood maybe a standard loss causes you to pound your desk once. Then, you lose again, but this one feels more unjust; you can feel the heat in your head and a strong desire to force a trade. You're able to hold back, but your mind is aggressively seeking a pattern that looks like a home run so that you can double your size. You find one, fire away, get quickly stopped out, and completely lose it.

- What details are present when anger is still small and manageable? What details are present when it's a monster completely disrupting your execution?
- How is your perception of the market different when your tilt is higher? What specific trading mistakes can you avoid at level 1, but can't stop from happening at level 10?

Then take the details you've categorized and put them into a map like this:

TILT LEVEL

Describe the thoughts, emotions, things you say, behaviors, and actions that highlight each level of tilt. Complete at least 3 levels.

1: Gripping the mouse tighter; moving it more like I'm searching for a trade that may not be there. Clicking my chart/DOM, but not doing any analysis. Wondering "Why is nothing presenting itself to me?" Tension in my head.

2:

3: Take a mediocre trade and get stopped out. If I didn't use a stop, price goes through where I should have gotten out, but I hold. Tension in my head turns into heat.

4:

5:

6: I increase position size, looking to quickly make back the losses. Fighting myself: "You need to stop now!" "No, I can make this back." I fixate on just the price itself, and not what the charts say.

7:

8:

9:

10: Don't care, and trade all the way to a margin call. Cursing at myself. Smash or throw something. Wanting to quit.

TECHNICAL LEVEL

Describe the quality of your decision-making, perception of the market, opportunities, or current positions at each level of tilt.

1: Still able to identify great areas to take a trade, following all my indicators and charts. But considering subpar trades to get on the board for the day.
2:
3: I look for areas that I can possibly scalp but are not in my pre-determined areas that I analyzed pre-market. End up taking the trade. Then take the same exact trade again, or add to another losing trade.
4:
5:
6: Not paying attention to the bigger picture. Adding more contracts and blindly enter a trade with a lot of risk.
7:
8:
9:
10: Gambling and just clicking buttons. There is no decision-making process. I don't know what I'm doing or why I'm doing it.

This step may seem impossible if all of your signs of tilt are extreme. If that's the case, frustration doesn't steadily build and turn into anger—instead, you explode out of nowhere. So you may lack the recognition at this stage to see the signs before you blow up. The smaller signs *are* there; you just can't see them yet. Pay close attention to the buildup, especially after you explode. The clues are there, if you take the time to look.

However, it's also possible that you have so much accumulated tilt, you're instantly exploding, which means you'll need to do a lot more work outside of the trading day to reduce the accumulation.

Step 3

You now have a solid draft that you can use while you're trading to **recognize your pattern and quickly respond with the correction.** Since these patterns can take a lot of experience and training to correct, don't revise your map until you get consistent evidence that it has permanently changed.

of good luck, are cursed, or get more bad luck than you deserve? If so, you may have drawn that conclusion from a long-term research project you've been unknowingly conducting since you started trading.

The problem is that your research has been compromised by bad data, and thus your conclusions are wrong. You aren't cursed, you get your share of good luck and not as much bad luck as it seems—you're just not measuring it correctly.

There are two primary errors that cause faulty coding in this way. First, you attribute your mistakes to bad luck, and second, when you have good luck, you attribute those results to skill. These errors bias the scales of trading justice to make variance seem unfair when it's not. The next two figures illustrate this point.

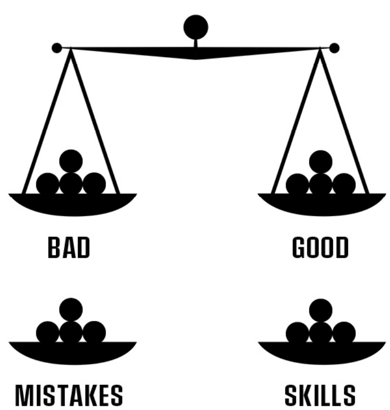


Figure 1

Figure 1 represents a theoretical ideal, where your view of variance, your understanding of your skills as a trader, and your assessment of the mistakes that you make are accurate. You have a balanced view of fairness. Although theoretical, some are much closer to this view than others. Practically speaking, this means understanding the inevitable outliers, knowing that even the best setups in your system can lose, and focusing more on the big picture, not just the outcome of a few trades. Filtering variance this way allows you to see it more accurately, and focus on what you can control.

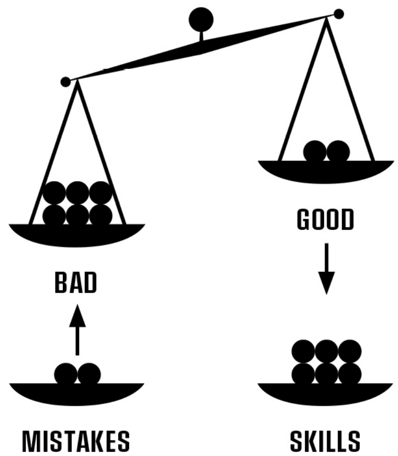


Figure 2

Figure 2 highlights how the two errors I mentioned can alter your perspective on variance and cause injustice tilt. First, if your mistakes were the predominant cause of your losses, but instead you attribute it to bad luck, then some bad luck is added to the scale. Second, if your profits were more likely a result of good luck, but you believe it was solely due to your skill, then some good luck is taken off the scale.

You can imagine what happens when this bias plays out repeatedly, over time. Inevitably you'd believe variance was unfairly against you, or that you were cursed. Consistently attributing good luck to your skill, and your mistakes to bad luck, overweights the scale on one side, making it seem like variance is against you. Bad luck appears to happen more frequently, and you tilt, believing you're getting screwed, when in actuality, you're mentally screwing yourself.

This pattern is further exacerbated by the fact that, typically, traders remember bad luck more than good luck, especially under emotional pressure. Remembering and focusing more on bad luck creates a biased perspective for the simple reason that when you add focus to something, you learn it better. So bad luck gets more attention and thus stands out more easily in your mind. Basically, you're really skilled at spotting bad luck and terrible at spotting good luck.

when he read too much into the price action and believed he could predict what was going to happen next, his confidence would take a hit.

Bad predictions were a primary reason he curtailed winners, rationalizing to himself, "Oh, you're wrong again—look at the flow going against you. You'd better get out of this trade before you take another full loss." Then at other times, he would book small wins, just so he could feel good.

Joe couldn't understand why he was screwing up. He got pissed off at himself, and at the market. This mixture of injustice tilt, mistake tilt, and the need to be right (a flaw in his confidence) sparked revenge. He became impulsive and vengeful toward the market. He would overtrade, taking the same trade over and over again after getting stopped out prematurely. As he doesn't use hard stops, this gray area was the perfect rationale his revenge needed to get back in, thinking, *I'm not letting the market stop me at the very high/low of this retracement. I'm going to get this trade right*.

Joe was very aware of the revenge problem, and even kept detailed stats, tracking what he did and what each trade would have done if he'd left it alone. Over the most recent three-year period, he was generating an R-factor of around 1.5, but it could have been 2 to 2.25, had he managed to remain more objective in his management—he was easily losing a full third of his available profit potential.

Through our discussion, which is summarized in the following Mental Hand History, you can see how the underlying flaws caused so much chaos:

1. **What's the problem:** I have a lot of experience in this business, and even though I know losing is an integral part of the game, I get myopic when trading the intraday timeframe. I'm just not seeing the winners and losers as a collective process, and I'm only seeing this one trade, this single outcome as a standalone occurrence. When it goes against me, or something unexpected happens, I can lose my composure and interfere with the trade.

2. **Why does the problem exist:** I'm convinced I know exactly how the trade is going to play out. That it's going to immediately break out, or reverse. But when long and I see sellers come in, for example, and it stalls, I second-guess my premise and lose trust in my judgment. I feel like I should get out of the trade, even though I know it doesn't unfold the same way every time, that it's inherently unpredictable, and that I have the hard proof of that in my data.
3. **What is flawed:** I'm holding onto this unreasonable expectation, and I have a hard time seeing that this trade could be one of the 50% or so that unfolds in a different way. The expectation that it should work out exactly how I anticipate it is overriding my ability to see the process objectively. I can become so drawn up in my reading of the orderflow that I'm almost fooling myself that I can predict what's going to happen next. Plus, there's a part of me that wants to win all the time. I want to be that good. Maybe I can't get 10 out of 10, but I believe I have the knowledge and experience to get 8 out of 10. I simply want to be that good. It's driving me to hold onto something that is unrealistic, and yet I'm reluctant to give up on that belief. Any threat to that fact—like a narrow loss—causes me to immediately attempt to prove it in the next moment. Once I'm in a trade, I'm seeking validation of that proficiency, and if I see the flow going against me, I'm doing everything in my power to predict what's going to happen next, despite knowing it's a futile task. But the very reasoning that got me into the trade, when apparently invalidated, is the same reasoning I feel should get me out.
4. **What's the correction:** I can only be assured that the trade fits within my system and that it has edge over time. My goal is to have a win rate close to 60% and a 1.75 to 2.50 R-factor, not an 80% win rate, which I believe is unrealistic for my style. I can be incredibly successful, but not like that, so I need to let the trades play out.

5. **What logic confirms that correction:** There is a thorough data set that grounds my strategy. The process has edge over time, but I'm only going to make money on roughly half of my trades.

Essentially, Joe was comingling daily PnL with long-term profitability, and he was equating PnL with being right. In our work together, I pushed him to become more process-oriented and that led him to revisit a tracking idea that he had kicked around but not fully explored.

Joe created a sheet with 100 boxes on it where each box related to an individual trade. Every time he would execute his strategy correctly, he would check off one box and wouldn't even think about the outcome until he had at least 25 in a row. Looking at these 25 completed trades at one time allowed him to more easily see them as a whole portfolio, replicating the process he had with options trading, as opposed to standalone occurrences. This made it a lot easier for him to avoid hyperfocusing on each trade, individually, in the moment, and to reframe his objectives in a more familiar light.

Joe knew he had an edge, and implementing such a strategy allowed him to let it work itself out over time. Laying out the trades in this way gave him the validation of success that he desired—the feeling of being a winner.

And the results showed. His R-factor rose to 3—although, to be fair, he noted that the market environment was different during the bulk of our coaching than previously. Yet, he estimated that if the environment had remained the same, it would likely still have risen to at least his goal of 1.75R.

Joe's work isn't done. While this process-focused strategy has significantly improved his execution and removed some of his emotions, there's more emotion pinging around than is ideal. As this approach becomes more standard, he'll free up mental space to focus on correcting those incremental emotions as aggressively as he corrected his execution around revenge trading.

However you organize your levels, at each one be sure to identify details that clearly distinguish it from another level.

As you assign levels of severity, also split them into two categories: the mental and emotional side of confidence, and the technical side. They sit side by side, so level 1 on the mental and emotional side corresponds to level 1 on the technical side, and so on.

The example below illustrates a scale that puts 5 in the middle as the ideal level of confidence, with 1 to 4 reflecting lack of confidence, and 6 to 10 reflecting overconfidence.

CONFIDENCE LEVEL

Describe the thoughts, emotions, things you say, behaviors, and actions that highlight each level of confidence. Complete at least 3 levels.

10: Feel invincible. Euphoric. Thinking about what I'll do with the all the money I'm going to make.
9:
8: Everything I do is right. Not thinking about potential for losses. Amped up and feel blood coursing through me.
7:
6: Expect the next trade to hit. Excited.
5: Confident and calm. No extra thoughts. Certain on what I'm looking for. Able to trust my intuition. Losses barely register.
4: Pessimistic, assuming open positions will lose.
3:
2: Self-critical and discouraged. Question the viability of my strategy. Feel like I want to give up, but am still fighting.
1: Knot in my stomach. Can't see how I can make money.

TECHNICAL LEVEL

Describe the quality of your decision-making, perception of the market, opportunities, or current positions at each level of confidence.

10: Get even more aggressive with targets, certain they'll hit.
9:
8: Take bigger position sizes. Harder time letting go of trades, and adhering to stops. Take more trades than normal.
7:
6: Making faster decisions and taking on more risk than ideal.
5: Easily stick to my game plan, while sensing what the market is giving me and adapting to it.

4: A bit hesitant, but still executing well.
3:
2: Looking for perfect trades, so don't take many.Overly worried about a reversal when I do.
1: Stop trading.

With that, you have a solid draft that you can use while you're trading to recognize your pattern and quickly respond with the correction. Since these patterns can take a lot of work to correct, don't revise your map until you get consistent evidence that it has permanently changed.

Now, use what you identified in this section to focus on the specific causes of instability in your confidence most relevant to your trading. I strongly advise that you read through all of them, because you may identify issues that you didn't realize you had at first glance. And you may think of additional details to add to your map.

CORRECTING COGNITIVE ILLUSIONS AND BIASES

As I've mentioned before, there are some people who believe cognitive biases can't be changed and that your only defense is to learn about them so you can avoid them. However, biases *can* be changed when you correct the faulty reasoning behind them. The first step is to identify the ones that affect you, and then to dig in to see what's feeding the illusion or bias.

There are many biases and illusions that affect traders. You can do an online search and find hundreds of them, such as the Gambler's Fallacy (where your sense of probability is altered) and the Recency Effect (where you overweight the relevance of information that you've heard recently). This section focuses on the biases that most commonly cause instability and impact the confidence of traders. You might find others that affect you personally, and by all means, use my system to break down and address them.

Illusion of Control

Having control is fundamental to our existence as people, not just as traders. We constantly strive to increase our ability to control our lives, results. Results in trading are black or white, but you can't evaluate yourself as a trader like that; otherwise you're going to have strong overreactions.

To see if this is a problem for you, pay attention to whether you often make extreme statements about yourself, other traders, the market, or trading opportunities. The common denominator is whether you have a polarized way of categorizing things—classifying them without any gradation or range.

For traders who tend to cycle between being overconfident and underconfident, this flaw may be part of the reason. You flip from one side of the coin to the other. Feeling confident, you see yourself as a genius; not feeling it, you consider yourself a fraud who has merely gotten lucky.

This flaw was a main cause of Max's problems with greed and, ultimately, confidence—remember he's the forex swing trader who had a 10-level map of his pattern of greed. If he had a losing trade, Max would begin to worry about his competence and his monetary return. He wanted to be more profitable than other traders to prove that he could be successful. There was a distinct need for his competence to be recognized by others, as well as himself.

Losses would make him hesitate to take another trade. He would overly focus on what he was doing wrong and, at times, start to doubt his competence and think he just wasn't a good trader. He'd have to shut it down for a few days to reset.

Before we began our sessions, Max assumed all traders had emotions that interfered with their performance, and he didn't know he had the potential to eliminate these problems. (Another example of black-and-white thinking.) In our first session, we were able to unearth what lay behind his greed and confidence problems. This Mental Hand History shows what we found:

1. **What's the problem:** When greed is at its worst, I am driven by an uncontrollable urge to make the absolute best return, right

now. I'm only focused on making money right now. There's no longer-term thinking.

2. **Why does the problem exist:** When I'm in a drawdown, my confidence weakens; I have more doubt about my ability and my goals. There is less certainty that I can hit my targets. I need to make money now to get back to breakeven or profit, eliminate any doubt, and feel confident enough to say that I'm a consistently profitable trader who could eventually take on investors.
3. **What is flawed:** I have a deep desire to prove that I can do this. The more that I can support myself, the more I prove that I can do this. This desire is healthy, but is taken to an extreme because I need to prove it right now. I don't want to prove it in one or two years; I want to prove it now.
4. **What's the correction:** I can't skip steps. If I want to build a big house, I can't build the third floor before I build the second. I know what I'm capable of, and I know what I've proven to myself already.
5. **What logic confirms that correction:** My confidence is weakened because my perception of my skill is too black and white. Clearly understanding the base of my skill allows me to know that there are always some aspects of my skill set that don't disappear. That allows me to progress in a more linear way, and have the patience to avoid impulsively jumping into marginal trades and, instead, only take the best ones.

To help break out of the black-and-white way of viewing his competence, I had Max identify all of the skills and knowledge that he's mastered in trading so far—all of the things he's good at automatically, and doesn't need to think about anymore. For example, being able to identify the market structure, where the key trendlines are, and support and resistance levels.

I suggested he read and think about the list daily for three to five minutes. What Max quickly realized was that he is a competent trader you get bored and start looking at social media, but you miss opportunities that still present themselves.

Perhaps after a rough losing session, you don't sleep well and the next morning you look over your pre-market data too quickly. The combo of less sleep and poor preparation lead you to enter impulsively, chase price, and take random trades outside your strategy.

Keep an eye out for signals and patterns like these. And remember, mapping discipline is an iterative process. When you spot new details, even just slight adjustments, be sure to note them. Small details matter, and can make all the difference when the opportunity to make progress is on the line.

Step 3

Once you've gathered a lot of details, organize what you've found by listing them in order of severity in a document, where 10 is optimal discipline and 1 is your worst level of discipline. At each level, identify details that clearly distinguish it from the other levels.

As you assign levels of severity, split them into two categories: the mental and emotional side of discipline, and the technical side. They sit side by side, so level 10 on the discipline side corresponds to level 10 on the technical side, and so on.

You don't need to have details for all 10 levels, however. Most traders whom I work with aren't able to distinguish their levels of discipline to that degree. Do as many as you can, but do a minimum of three. Then take the details you've categorized and put them into a map like this:

DISCIPLINE LEVEL

Describe the thoughts, emotions, things you say, behaviors, and actions that highlight each level of discipline. Complete at least 3 levels.

10: Energized, totally consumed by the process, waiting for the market to come to me, not concerned about money.

9:

8: Wondering why it's not working and trying to convince myself that it still can. A bit on edge, leg bouncing.

7:

6:
5: Heartrate accelerating. Moving the mouse faster. Care what other traders are thinking, and looking for something newsworthy. Thinking about how to end the day green.
4:
3:
2: Can't step away, even though I know I should. Checking PnL every 10 minutes. Body feels itchy.
1:

TECHNICAL LEVEL

Describe the quality of your decision-making, perception of the market, opportunities, or current positions at each level of discipline.

10: Taking action only at my predetermined spots, and able to let the trades play out.
9:
8: Have trouble letting go of losing positions, and looking to enter new spots sooner than my strategy tells me to.
7:
6:
5: Forcing trades for valid reasons, but not my ideal.
4:
3:
2: Overtrading. Getting in and out of positions more randomly. Moving my stops.
1:

In this example, impatience is the primary problem. However, if you have multiple discipline problems, you can include them on a single map.

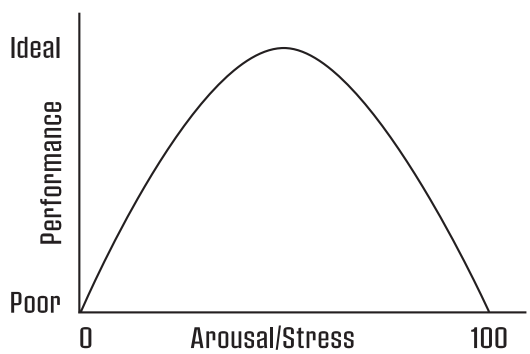
Now, you have a starting point to dig into your discipline problems, so you can identify the cause and devise a strategy to move your C-game forward.

IMPATIENCE

Impatience comes in different sizes and exists on both a micro and macro level. Think about how you feel in a drawdown, and when lacking opportunity in the market. Maybe you get tired of waiting and can't sit on your hands anymore. The itch to fire off a trade is so strong that you

There's even a scientific principle that describes the relationship between emotion and performance. The Yerkes-Dodson law states that your performance improves as your emotions rise, but only to a certain point.[10]

YERKES-DODSON LAW



As this law defines it, your threshold is the tipping point on the right side of the curve, where emotions start to become overpowering. At this point, performance declines, because the emotional system begins to shut down higher brain functions, like thinking, decision-making, and emotional control. When that happens, you lose access to the knowledge and skills you're currently learning in proportion to the intensity of the emotion.

The further you pass your emotional threshold, the more knowledge you lose. Things that are brand new are the first to go. Skills that are much better known, and close to being mastered, are the last to disappear.

You know your emotion has crossed your threshold and become overactive when it's begun to impair your thoughts, actions, perspective, and decision-making process. Of course, everyone's threshold is different. It's a very personal metric. Keep an eye out for when your biases start to pop up more, your decision-making ability starts to change, and your access to certain information starts to shrink.

On the left side of the curve, the opposite happens. When you don't have enough energy or emotion to think, as occurs when you're tired,

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A STEP-BY-STEP SYSTEM FOR MASTERING TRADING PSYCHOLOGY

Think about your most costly and recurring trading mistakes. Chances are that they're related to common errors, such as chasing price, cutting winners short, forcing mediocre trades, and overtrading. You've likely tried to fix these errors by improving your technical skills, and yet they persist. That's because the real source of these mistakes is not technical—they actually stem from greed, fear, anger, or problems with confidence and discipline.

If you're like most traders, you probably overlook or misunderstand mental and emotional obstacles. Or worse, you might think you know how to manage them, but you don't, and end up losing control at the worst possible time. You're leaving too much money on the table, which will either prevent you from being profitable or realizing your potential.

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