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Options Trading: It's All in Your Head

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October, 2013

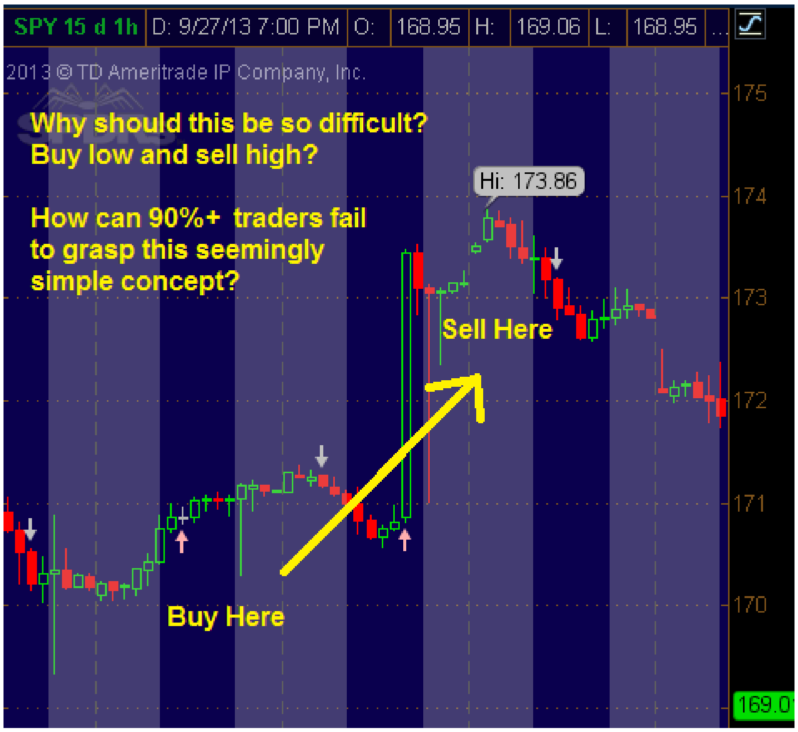
Psychology of Trading

There are many resources written on this topic. I've read a few, taken some direction from some but likely forgot most of it. Trying to explain an emotion to a logical mind is like trying to explain color to a blind person. So while there is an abundance of the written word on the psychology of trading, most of it never registered with me in any meaningful way as to affect my own trading.

If you subscribe to the Left Brain - Right Brain Theory, my left brain keeps me logical and focused but my right brain is totally subjective, intuitive and emotional. I swear the only link between them at times is my butt, which wears the pocket holding my wallet. That seems to be the only thing both sides of my brain understands. It's quite remarkable, actually, how much emotion can rule, totally ignoring all logic and common sense at times.

Stock trading, like so many other facets in life, is mostly mental. Some sources say 95% but it's likely more. Just like sports, chess or flying an airplane, survival starts with the mental aspects. It's naive to think otherwise, which is why so many other trading training programs fail. Very few address the mental aspects of this profession. They only give you the mechanics. That's the easy part. If 'a' happens, then do 'b'. Right? Then why is trading so difficult? It all sounds so simple.

In my early years of trading, I often would look at a chart and wonder how hard it could be simply buying low and selling high. It didn't even matter what stock I traded, just buy low and sell high. If I could do that enough times, could I not eke out living? Imagine the possibilities!



To make matters more interesting, I discovered options.

Options are derivatives of underlying stock. They are contracts with options holders regarding the stock's price, agreeing upon the possibility of converting options into stock by a certain date for a certain price. Options sellers and buyers only agree on the price at the time of purchase; they disagree on the value. A buyer of 'call' options believes the underlying stock will rise within a certain time frame. The seller believes it will drop in value. Can two seemingly intelligent individuals be that wrong?

Typically, option prices have huge swings, especially 'out of the money' options. The chart below is not unusual at all, showing a stunning 450% possible gain in price before lunch. Mind you, this was on an option expiring that same day when the likelihood of the price coming 'into the money' was remote.

Even options expiring a week out, as shown below, had potential profits of in excess of 100% on both the calls and the puts, if you measure the lows to highs.

Of course, this screen shot does not tell us which came first, the lows or the highs. But that did not matter. I only knew that between the lows and highs of the day, there were huge profits to be made.

It was also true that I'd be hard pressed to find a day when such potential gains were not to be had. It seemed in all my studies, that every day, there were options - front week or a week out - that experienced with at least a 100% differential in price movement.

Options prices rose and dropped with the ebb and flow of the underlying stock, regularly rising to over double their value, then dropping again, repeating this behavior to varying degrees.

It didn't even matter, in most cases, which call options I would have purchased, as suggested in the option chain below. The further out, it seemed, the more they moved.

CALLS								Strikes: 24
Low	High	Bid	X	Ask	X	Exp	Strike
JUN4 13 (6) 100 (Quarterlys) POS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.75	2.84	2.25	Z	2.28	X	JUN4 13	158
1.48	2.63	1.93	B	1.97	X	JUN4 13	158.5
1.25	2.17	1.63	B	1.67	X	JUN4 13	159
1.02	1.87	1.36	B	1.40	X	JUN4 13	159.5
[illegible]	[illegible]	1.10	B	1.13	Z	JUN4 13	160
.67	1.32	.90	Q	.93	X	JUN4 13	160.5
.52	1.08	.70	A	.73	Q	JUN4 13	161
.42	.86	.53	B	.56	X	JUN4 13	161.5
.30	.69	.41	Q	.43	Z	JUN4 13	162
.23	.50	.27	X	.31	T	JUN4 13	162.5
.16	.39	.20	W	.23	T	JUN4 13	163
[illegible]	[illegible]	.14	T	.16	T	JUN4 13	163.5

These were undeniable facts.

I was also a realist in my search for a viable strategy. I recognized that I would likely not achieve a 100% profit in trades every day. After all, the further out of the money, the less likely they would come into the money and hence grow to double their value.

But could I not achieve, say 10% per day? Could I not find satisfaction with even 8% a day?

I did not even want to attempt 100%, but a mere 20% or even a 10% per day would be quite gratifying.

This price behavior was indicative on both the calls and the puts, as shown to the right. Hardly a day when a 100% variance was not achieved on the either side.

Strike	Bid	X	Ask	X	Low	High
						21.32% (±3.688)
153.5	.41	T	.45	X	[illegible]	.84
154	.47	Z	.48	Q	.37	.96
154.5	.55	X	.57	I	.42	1.05
155	.63	X	.66	X	.48	1.20
155.5	.72	X	.75	X	.58	1.32
156	.83	T	.86	B	.63	1.47
156.5	.94	X	.98	X	.75	1.65
157	1.08	Z	1.11	X	.84	1.82
157.5	1.24	Q	1.26	X	.98	2.04
158	1.39	Q	1.42	N	[illegible]	2.25
158.5	1.58	X	1.62	X	1.25	2.48
159	1.78	X	1.82	B	1.42	2.74
159.5	2.00	X	2.05	B	1.60	2.96

I was determined to take my 10% per day, trading stock options.

The Enemy

I made a lot of money and lost a lot of money over the ensuing training period. Only upon recognizing what the enemy was, did my profits become consistent.

Turned out the enemy was not the market at all. In fact, the market was very much my friend. It provided an arena in which I could garner in excess of 100% potential gains most days. How can you fault such an institution? I could be only too happy to oblige and take my share.

The enemy was the guy in the mirror. In fact, it was an army I was fighting. Their names: ego, fear and greed. These gremlins came out whenever I engaged in real trades using real money. I needed to wrestle them down, once and for good.

But before I could, I needed to be fully armed. I needed a clear understanding of what exactly was the market, what was happening when prices fluctuated and why traders behaved the way they did.

Performance Based Endeavor

Despite being familiar with various strategies, systems, software programs and money management techniques, success in the markets depends mostly on your own psychological state of mind. Successful traders recognize that, like sports, not all trades will be successful.

Trading is performance based, meaning that stress and your state of mind will affect your ability to succeed. This is a business and must be treated like a business if you expect to earn profits. But in many cases, that's where the similarity ends. Trading is more akin to sports in many ways, where it is the pursuit of profits that is the game.

Trading is very much different from most other businesses.

1. Intellect is irrelevant to your ability as a trader. Even the famed investor, Warren Buffet, said you only need an average IQ of 100 to be successful. Prosperity in this business is not a function of how smart you are or how much schooling you may have accredited to your name. This may be one reason some of the most intelligent and achieved individuals have great difficulty as traders. They find it hard to accept in a society that puts a premium on intellect.

2. Traditional work ethics do not apply. Many who come into this world do so from a 9-5 work day, having been ingrained all their lives that longer hours mean more productivity, more profits, etc. Common belief is that if you're not doing something during the full work day, then you are not productive. With trading, nothing could be further from the truth. Often times, staying on the trading floor very much works against you. Just like at any gathering, one needs to know when to arrive and when to leave.

3. There is no business good will. Trading is a unique endeavor in that what you did yesterday does not impact what you will do today or tomorrow. Unlike, say a restaurant, where many years of great service, food and prices keep customers coming back, each and every trade is a different situation, unaffected by the trade prior to or unaffecting the following trade. There are no customer relationships built up over time, something that is traditionally important in American business.

4. You can change your mind any time. If you were to engage in normal businesses, much effort, time, money and energy would be devoted to developing your business venture. Should you back out of implementing such a venture, you could be construed as a failure. Trading gives you the right, perhaps even the obligation, to change your mind at the last minute, should market conditions change. Despite all the analyses, you would be considered prudent to change your tack and rescue a trade gone bad.

5. Success comes to those who can detach themselves. Engage in a traditional business and you will likely find yourself immersed 24/7. Even if not physically open, your mind and responsibilities are with your business. Many business owners I talk to have not had even a vacation in decades, regretting not being able to watch their kids grow up or enjoying life's normal activities. Successful traders work their own hours, often taking time off. Even during market hours, they trade with emotions totally withdrawn.

What To Do

1. Detachment

Attain a level of enlightenment to see through the illusions of life. By knowing what reality is, when you are enlightened, you can have everything in life. It is ironic, to say the least, that in this world where people seek material things and desires to have them before thinking about enlightenment, they tend to have neither. Those who attain enlightenment are the first to acquire worldly things. It is not about being desireless but rather about having no attachment to desires. It is the attachment that causes suffering, burning emotional energy on the uncontrollable. Letting go of all attachment releases the state of wanting or lacking. When you are detached, you are in a state of being desireless.

When you are free of detachment, you are no longer trapped by the confines of the market. Rather than forcing a trade to go a particular way, you are allowing yourself to go another direction. This true freedom, detachment from choice, is the secret to flexibility. The masses are emotionally attached to their choices, which is why they lose money. They fail to sell losers, for example, or fail to sell winners when they reached substantial levels of growth, thinking the party will go on forever. When you are attached to your trades, you are trapped and inclined to fail.

The enlightened traders get what they want by taking advantage of the market movements, regardless of direction. They don't care about other things either, such as if anyone likes them or not or if their partner is happy or not. They simply derive all their happiness from within, experiencing and attracting the positive energy in the moment.

This is the reason the rich get richer and the happy get happier while the poor get poorer and the unhappy get unhappier. Those who do not understand this call it luck but the reality is that those who master detachment from desire, naturally attract positive energy and hence, more good things.

What to do:
Pretty heavy stuff, but in practical terms, learn to let go of your trading money. When you deposit an amount in your account, consider it gone. Of course the idea is to make money but if you reduce or eliminate your expectation of great wealth, it is impossible to get hurt should you take a hit on the market. If you trade with no emotional attachment, you will likely execute better trades, based solely upon your market assessments. I'm assuming, of course, that you have the technical know-how regarding strategies and analysis techniques.

In mathematical terms:

$$\text{Success} = \text{Reality}/\text{Expectations}$$

The less you expect (ie) more detached you are, the more positive energy comes to you and/or you see things in a more positive light, attracting success. Expect less, get more.

2. Determine Why You Trade

The old saying 'a fool and his money easily part' has never been truer than in the stock market. While most folks would say it is the money that is the primary reason to trade, truth is often quite different.

Trading motives can be typically more complex. Some traders feel the need for excitement, an emotional stimulation that comes with having open positions. It makes them feel alive, monitoring and adjusting their positions. It provides an escape from everyday boredom. The issue here is that the 'excitement' is indiscriminate. It can be generated regardless of whether the trader is winning or losing; the emotional intensity is still there. This experience can be like a drug. Even as their trading account vanishes before their very eyes, it does not curb their financially destructive behavior.

Some traders do so because it provides an escape from their everyday lives. Perhaps their job situation is dire or they seek the luxury lifestyle in a secluded rural or seaside location. They often strive for that self employed, independence so often associated with trading. Seasoned traders scoff at this naivety. Experienced traders know there is no safe haven in trading yet the novice traders all too often find out the hard way, albeit, the escape route is a unifying theme.

Another driving motive is the need to impress. Highly successful or accomplished people in other ventures tend to gravitate to this reasoning, the need to impress others in this highly competitive and sexy field. The downside to this motive is that while the need to impress is satisfied most by bragging rights with the winners, the losers still garner mileage from recounting old war stories.

Most traders, of course, do so to make money but all too often, it is not the dispassionate, analytic decision making process they like to think it is. When infused with ego, the reasons get all too murky, most often resulting in losing trades and broken bank accounts.

<u>What to do:</u>
Accept that the underlying reason should be to make money, building long term wealth in a systematic, proven methodology.

Adapt a strategy that works for you, be it my signature 'Bread and Butter' strategy, Launch Pad or any other system out there that meets your needs. There is no shortage of strategies. Day trading SPY options is a very niche system that may or may not be for you. This system, like so many others, has its moments. Do your due diligence to ensure that any program you consider is for real, has a proven, identifiable track record that could be replicated and follow it on paper until you are secure with investing real cash. If you fall, don't necessarily abandon the strategy. Determine ways to improve. Always keep in mind, it IS about the money. Be wary of 'one hit wonders'. These are the so called experts who had a lucky break once and now profess to be all knowing, all wise traders, flogging their material mostly to the unsuspecting newcomers. I know of one charlatan still peddling his snake oil since he accidently scored in the 1980's! He hasn't traded himself in decades.

If you feel the need to trade for reasons extraneous to making money, better reconsider other avenues to fill those voids. Continuing on the path for the wrong reasons could be hazardous to your financial health.

3. Discipline

Another word that we hear all too often, consider discipline like a muscle. You either have it or you don't. If you don't, it is not to mean that you never will. Discipline is that all too necessary - likely the most important - attribute to successful trading.

Stock trading is the only arena that I know of, that just about anyone can enter, pick a side, determine their own rules of engagement, or not, and decide to follow their own rules, or not. And no one cares one way or another. You can choose your weapons and play the game any way you wish. The one key ingredient to that success is having the discipline to execute your trades in a proper, predetermined format.

<u>What to do:</u>
1. Exercise your discipline in ways that do not matter, before you enter the stock market. For example, I cannot pass up a good piece of chocolate to save my life. To strengthen my discipline, I placed a Hershey bar on my kitchen table, an area I pass by dozens of times a day. My goal was to get through one day without touching it. Eventually, I did it. Of course, it was devoured quickly the next morning but I managed to control my urges. Later I did it for several days, then a week, and on and on.

My latest effort in exercising discipline was driving the posted speed limit on the interstate. No question, my late model fine German engineered work of art is much more comfortable at higher rates of speed, which I thoroughly enjoy, if I may add, but I engaged in driving in the slow lane at this seemingly idle speed of 65 mph. My wife was not amused but understood when I told her I'm exercising my discipline, in hopes that it makes me a better trader.

It is this reason that fighter pilots, military personnel and those from a culture of high discipline make better traders.

2. Establish and follow rules religiously. Whether you determined your own rules to follow on your own or adopt a set, you must not break them. It is vital to stay the course and only veer away when the market conditions are no longer valid. If you cannot stay the course on this regiment, then write them out as a check list. As a pilot, I can attest that regardless of how many years in the air, we always use check lists for every phase of a flight. This function not only keeps us safe but also keeps your ego in check. When you enter the market, leave your ego behind; this is not the place for it.

If you establish your own rules, ensure their validity through extensive testing. I normally never bring a hypothesis to the forefront of my group unless it has been tested at least 100 times, and only then, with some degree of trepidation.

3. When you slip on either discipline or adhering to rules, pull back immediately. Reflect on why you dropped the ball. Make necessary corrections and reestablish your position, vowing to never waver.

4. Patience

I'll talk about this virtue later.

This photo would be funny if it weren't so true.

It was Black Tuesday, the Wall Street Crash of 1929, that began in late October of that year, signaling the beginning of the 10 year Great Depression. It was only at the onset of World War II that mobilized America, ending the worst economic affliction to hit all western industrialized countries.

A little background: the Roaring Twenties was a decade of wealth and excess. There was talk of the dangers of speculation but most believed the markets would continue to rise indefinitely. A tremble occurred on March 25th of that year when investors started selling stock at a rapid pace, exposing the market's shaky foundation. The National City Bank provided $25 million - a hefty sum for sure - in credit to shore up markets, bringing a temporary halt to the financial crisis.

Despite this, the U.S. economy was slowing down. Steel production dropped as did construction and car sales all the while consumers were building up debt on unprecedented easy credit. Sounds all too familiar.

The optimism and the financial gains of the great bull market on that nine year run were shaken on September 18, 1929, the day shares dropped abruptly on the New York Stock Exchange. Two days later, the London Stock Exchange crashed when top British investor Clarence Hatry and many of his associates were jailed for fraud and forgery. Optimism dropped, instability set in and a see saw effect prevailed on the markets.

Heavy trading sparked more uncertainty and on October 24th, the market lost 11% of its value on opening bell. Panic and chaos presided on Wall Street as bankers assembled to find a solution. They decided to place large bids on shares of U.S. Steel at prices well above market. Although buoyed somewhat, the end of the day still saw the decline on the Dow Jones at 6.38 points, a temporary respite.

October 28th, it was Black Monday as the slide continued with a record loss of 13% on the Dow, a day preceding Black Tuesday.

Much was learned from those days. The U.S. Senate established the Pecora Commission to study the causes of the crash and in 1933, Congress passed the Glass-Steagall Act, mandating a separation between commercial banks which take deposits and extend loans, and investment banks, which underwrite, issue and distribute securities.

The effects of the crash were felt for a long time. Bankruptcies, unemployment, everyone was affected.

If society did not learn from the past, it is destined to repeat the mistakes. A prime example is, according to a recent article by Mitch Tuchman of Forbes, questioning your 401(k) to be a scam. On paper, they are great deals. Tax deferred growth for decades to come, how can you go wrong? The problem is the endless fees and needless charges piled on top of one another. Mutual funds are making way to index funds and exchange traded funds, leaving the management fees as "the last great rip-off in retirement savings," quotes Tuchman.

Thankfully, the Department of Labor is phasing in rules to force managers to disclose what they are charging Americans for the privilege of handling their savings. Some of these fees are costly and in the long run, may adversely affect contributors' retirement. The problem is, many of the high flying funds and their managers retire, littering the landscape with financial wrecks.

There is plenty of information on financial scams and I will leave it to you to find. The point is that it is incumbent upon each of us to manage our own financial destinies. I have talked to many elderly workers and so many share the same stories - how they had it all. Nice pensions, dreams and homes, lost to ill advised investments and mismanaged funds.

This is all the more reason to secure your own trading style, mastering the techniques and methodologies so you can ensure your financial future. The one and only person you should learn to rely on is yourself. Remember, nobody cares - or should care - more about your money than you should.

Back to Patience:
So, how does all this relate to patience, you ask? Nothing. I wanted to exercise your patience by having you read through two pages of irrelevant market history before I embark on strategies to improve this 'muscle', just like discipline.

Imagine the possibilities if you could only improve but these two disabling traits: discipline and patience!

Patience is a that other virtue, that we need to exercise, making it easier to facilitate when we need it in the market.

I have yet to consol someone who has not traded prematurely. You enter trades given certain criteria, yet it is so easy to jump the cue before the timing is right. Suddenly, the market reverses and your trades turn on you. A little patience of waiting but one minute, could have saved you.

Same on exit. So often, the price stumbles, even drops back slightly. I liken this to shaking the tree for loose foliage, permitting the strong limbs to benefit from another growth surge. You fear a reversal and exit the position, then watch the market soar once more. If only you had waited one more minute!

Sometimes, of course, the market does reverse and you need to be aware of when that is about to happen. Those are technical studies we won't delve into here. There is a distinction between pull backs and reversals, and at times, patience is what divides the two. If you see the obvious chart patterns, support and resistance, macd, the KISS Indicator or whatever reliable indicator you use support the continuation of your trades, stay with it.

Patience is one of the hardest virtues to master but mastering it means the difference between earning 5% on a trade and 125%.

<u>What to do:</u>

Just like discipline, if you are not a patient soul, learn to exercise it starting slowly. Children are a great source, as is a puppy. When you feel the urge to jump into a situation, stop and breathe, count to 10 and see if your perspective changes in the interim. The need for urgency may not be so great if you just wait briefly.

Practice patience with your family. Before engaging in fiery discussions, stop and let the dust settle. Then respond in a more settled manner. Impatience also makes others anxious. In the market, it usually just means losing money or opportunities.

When in a trade, despite what you may hear other traders say and do, if you see an opportunity to up the ante using the 5 minute macd, just do it. You don't need permission.

In the case of this trade, patiently waiting for the 5 minute macd to turn back down would have netted a conservative 130% or more.

Patience pays.

5. Ego

Understand that the stock market is no place for egos. It doesn't know or care who you are. You are a number that could be trading with Jim Cramer or Tony Soprano types. (and yes, the mobsters are there)

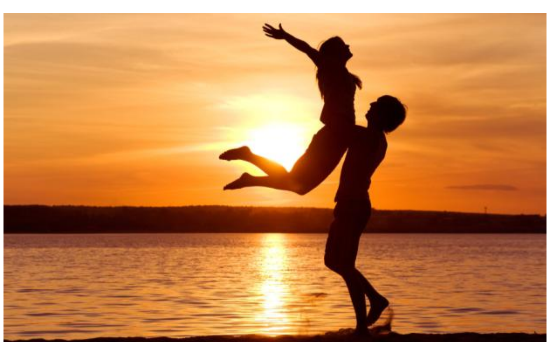
While the preceding is true, know too, that as a trader, you need to develop a level of confidence, effectively redirecting your ego. In other words, you also have to feel great about what you are doing.

<u>What to do:</u>
1. Accept the fact that you are not Gordon Gekko (Michael Douglas) in *Wall Street* and that is not how it really is, at least not at this retail level. The way to curb greed is to remain humble and take modest gains along the way, strictly following the rules. When you have accumulated significant wealth, then you may experiment and increase your risks in a controlled fashion. Remain cognizant that there is a direct and inverse relationship between how much money vs. how much brains a trader has. The more one makes, the more careless he/she becomes and tends to lose it quickly. More money tends to lose value.

2. Block out your account balance. By watching that number fluctuate, you could be distracted into entering positions for the wrong reasons. For example, your balance shows $9,950. It is 3:30 pm, Friday afternoon, after a great day of trading. You're the alpha man and can do no wrong. So you enter one last trade to make a quick $50 to put your balance over $10,000, neglecting all indicators in the process. Suddenly, it is 4:59 and you never did make that mere $50 you were so sure you had. Now the choice: sell for a loss of several thousand dollars or hold over the weekend. How do I know this? It happened to me.

3. Remember who you are. Your name is Astrid or Tom or Nabil. On the market, we will not think of you or refer to you as doctor or reverend or anything else that may elevate you to higher ground in the otherwise real world. You may have attained lofty positions in other areas of your life, and we respect that, but on the market, that ego boost needs to be tamed, even subconsciously. As a point of reference, I had high visibility clients who readily fed their egos while in discussion and every one of them left the business soon after starting. How do I know that? They told me after the fact.

4. Do make yourself feel good. Your job is now that of a trader, a respected, interesting and sexy career. Many would love to do this if they only knew how or had the guts. One client complained that he/she was a little weak with the opposite sex, lacking confidence, especially when he/she told them he/she was an IRS tax auditor. Any wonder everyone ran? I instructed my client to wear the 'trader' badge instead. Needless to say, a crowd gathers around this 'traitor' in social gatherings now when they find out. My client suddenly became a highly popular, sought out trader... and better on the dating scene too.



6. Confidence

One of the biggest issues with traders is that we are not awarded any certificates or diplomas for achieving academic credentials. I do not know of any accredited universities where you can obtain a degree for outstanding day trading. Our success is measured on a daily basis by the profits and losses we incur. Unfortunately, many of us come from a background where we are recognized as top performers and proudly display our honors. Until we are deeded, we never really know if we are any good or not. The reason they do not teach this in school is because good traders trade or teach on their own terms. Colleges could never afford to pay great traders enough to forego their trading to stand in front of a class. Not to mention, the market is dynamic and schools could not possibly keep up with the changes in the markets. Hence, there are many a great traders or would be traders but lack the confidence bestowed from a higher authority.

<u>What to do:</u>
1. Determine which program is right for you. Using day trading as a guide, embrace all you can with us through our various training facilities. Speaking on terms I can relate, I would readily let you know when you are ready to go 'live', when you are an expert trader or when you need to pull back and reassess your trades. You will know when you have achieved that expert status. Your account balance will advise you accordingly, rest assured. You will enjoy a level of confidence you never had before, not just in trading but in other areas of your life as well.

2. Know that after learning the program, you will know everything you need to know and that you do not have to know everything about the stock market or the thousands of symbols and endless strategies to make an enviable income in the market. Learn one great strategy you can use at will, on a daily basis, and watch your income soar. In addition, you will gain back your time, learning to trade just one hour a day.

3. Turn off the television. CNBC hires some of the most beautiful on air staff and compelling analysts but frankly, unless they move the market, they cannot know any more than you. Technology today puts us all on an even keel. Television talking heads are paid to sell commercial time. Trading from their advice is generally not in your best interest. Don't believe me? Just track some of their hype and see what would have happened to your investments.

4. Assess the markets in short, medium and longer term segments. If the short term turns on you, pull back and view the bigger picture. You may just find it sobering and confidence boosting that may keep you in a trade that may otherwise have swung you out. Most day trading losers cannot envision beyond a few minutes on their charts; hence they make lousy trades. The main reason 90% of traders stay in the markets for a year or less is because they lose their money. 90%. You have a better chance at ending your marriage than staying in the market. Looking at the bigger picture usually lowers my blood pressure nicely, giving me an opportunity to reassess or repair trades gone bad.

5. A confidence booster for women: gender matters. Studies show that women make better traders.
a) men hate to be wrong and take longer to admit they erred
b) women react better in a crisis and less emotional, are more disciplined and less likely to panic
c) women can say no easier and less likely to be in a trade when they shouldn't be
d) women read the manual, sticking closer to a strategy, questioning anything they are uncertain of
e) women are measured, as opposed to men jumping in head first, which they are prone to doing.

7. Plan the Trade and Trade the Plan

This is a phrase that surfaces often but is also often neglected. Yet nothing could be truer. Imagine if you planned every trade and executed it on cue!

<u>What to do:</u>

1. Each person has their own style. Determine your best approach to long term wealth creation. Physically plan it out. If you do not have one, I will send you mine; a trading plan that is designed to take $1k into $100k without breaking a sweat in just over 6 months, while taking money out along the way. Do not try to emulate someone else's style as each person's situation and risk tolerances may be different.

2. Be decisive in your trading. When the markets set up with your prescribed indicators, pull the trigger. If you wait, you may miss the move or worse, enter a position as it readies to turn against you. This is no time to call a friend for advice. Either you know what to do or don't. If not, do not trade real dollars.

3. Do not call a friend or anyone else for that matter. While trading, focus on the task at hand. Involving others only serves to distract or lead to a bad position. Your trading is not a democracy where everyone in your group has to agree. It will be entirely up to you to execute your positions.

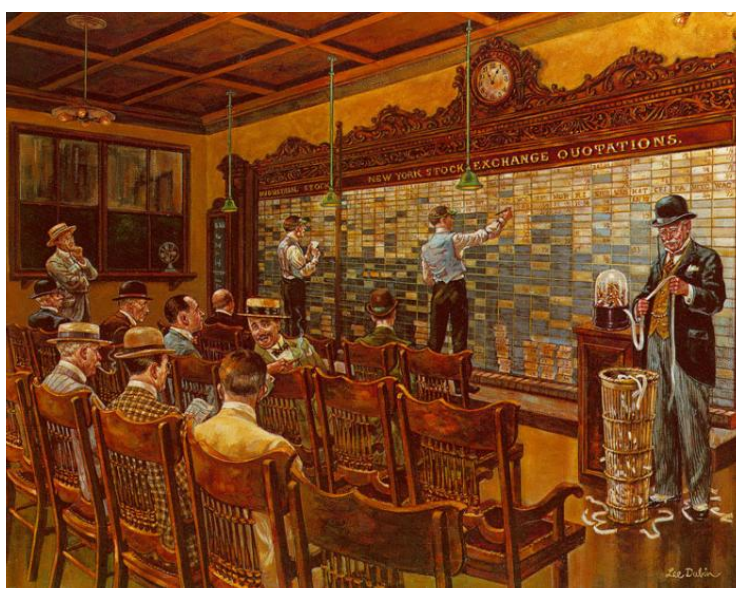
4. Do not hesitate taking modest gains, especially if you are just starting out. There is no shame in taking humble profits of 5 or 6% on a trade. If it is in your plan, trade it. You can always get back in, should you wish to take another run at it.

5. Keep distractions at bay. Use voice mail when the phone rings and you need to pay attention to your positions. Ensure that others respect your privacy. Ignore the door bell.

6. Make sure you are well rested and feeling well. Successful trades are those when you are 'on', fully functional with nothing in your head space consuming your thoughts.

7. When you plan your trade and trade your plan, your fears and greed will magically dissipate. Why? Simply because you did your homework, established reasonable parameters and aim to function within them. You should have no worries; otherwise you would not be in a position.

8. Using all my resources, I like to call upon some Divine Guidance every morning before the market opens to guide me and protect me along the way. This game is not for the weak hearted and it is much too easy to lose it all, as so many do. If I do lose on a trade, I wish to not lose the lesson, if for nothing else than to pass it along so others benefit. As I am tested, the stakes rise.

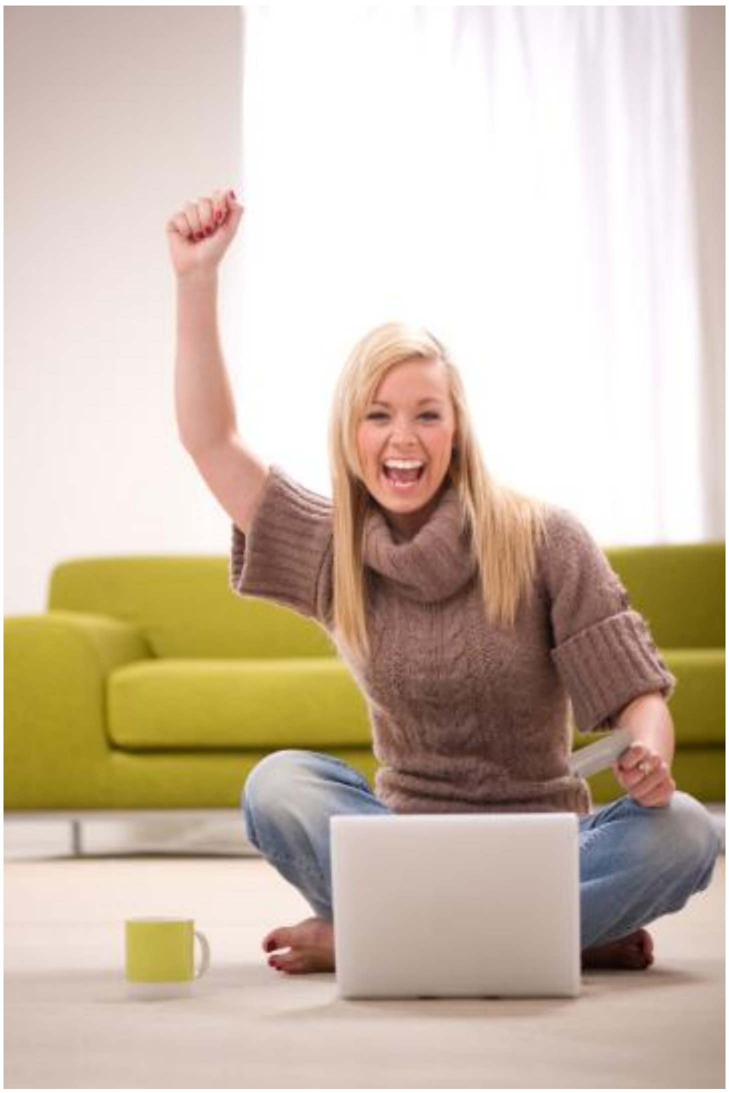


8. Positive Energy Only

Day trading SPY can be very consuming of your thoughts, and as mentioned before, requires you to maintain a positive energy flow around you to be successful. This extends to both time outside of trading hours and also to your physical surroundings. Any encumbrance on this flow can be inconspicuous and adversely affect your trading. Often times, you are not even aware until you remove the cancerous influence.

What to do:

1. Your well meaning friends and family may offer their sincere trading advice but unless they are a significant part of the process, with all due respect, they do not know what they are talking about. When you have hard earned dollars invested in a trade that can go either way in a heartbeat, nobody can empathize. I find it best to not even discuss your trades with non-traders, not even your spouse. One client had a string of good fortune come his way. He had the misfortune of dealing with his wife about it. After excitedly telling her of his earnings, she came to expect it all the time. Needless to say, he found himself in a pressure cooker.



2. Excuse yourself from negative people. We all know them. A dark cloud follows them even on the sunniest days. All things bad happen to them only. These people crave the attention and may even be highly entertaining but they serve no purpose other than to bring you down with them. I would rather have fewer, positive people surrounding me than many people, some of whom drain my energy with their problems.

3. Engage your spouse for support. You need not bore them with specific trades or strategies unless they truly understand and show an interest. But having their support can mean the difference between poverty and prosperity.

4. Recognize that most problems are likely mere inconveniences, a point that is true in most aspects of life. Don't sweat the small stuff. When life gets in the way, brush it off and carry on. Stay positive, stay focused and stay with the game.

9. Overtrading

Most traders feel the compulsion to always be in a trade. After all, the market is open, there is movement and why not take advantage, right? While that makes sense on the surface, what really happens is that emotions are subconsciously being fuelled, positive or negative. If you are in a losing mode, you want to trade more to make up for the loss. If you are winning, you want to keep going.

Below is a typical example. You are a great trader, having just completed six great trades, profiting from each. On your seventh trade, you expect to sell on a new high. But the market sees it differently. The rally lost momentum and dropped. It's 3:30 pm and the price is dropping. "It will come back before the end of the day", you tell yourself. By 3:55, reality sets in and you realize it has not returned and likely won't. In fact, you are losing considerably. Decision time. Do you sell for a huge loss or hold on overnight?

If you hold overnight and the market opens high, you made money. Reap your profits the next morning and you will likely think you did well. But if the truth be known, it was all luck. Don't be fooled. If the market opened low, you lost. Either way, holding overnight turns into nothing more than a gamble. Just because you sleep doesn't mean the rest of the world does. Add in theta loss and your chances of success are even thinner.

<u>What to do:</u>

1. Do not initiate trades after 12:00 noon. If you did not see an opportunity in the morning, chances are you won't see them in the afternoon either. If you are in a trade from the morning, you have ample time in which to liquidate your position; the afternoon does not afford you that luxury.

2. Your default position should be 'cash'. When you place a trade, your money is in motion. Anything can happen. Trading in and of itself is enjoyable, challenging and, hopefully, very profitable. However, do not engage in a trade unless you have a compelling reason. Only enter a trading position when your rules are satisfied, conditions met. Even if you miss the move of the century, it's ok. There's another trade around the corner.

3. Include in your plan a reasonable profit target and stick to it. When it's met, you are done for the day. I like to think of trading akin to an annuity. I determine what I would need to trade to make *x* amount and aim slightly higher, comfortably withdrawing from my trading account on a regular basis.

4. Another mindset some folks use is highly effective for those coming from a working background. I explain to traders to envision that you are working for me. I set your goal to make, say 8% a day. One you hit the target, take the rest of the day off. You don't need to stay at 'work' any longer... enjoy the sunshine! In this game, one is not rewarded for trading overtime. If you make your targets early in the day, more power to you.

5. Limit yourself to the number of trades. More trades does not equate greater profits. Often times, it's quite on the contrary. It's better to have fewer, more profitable trades than many marginal trades. Scalping too tight only serves the brokers and stresses the trader. I usually trade once, maybe twice a day. On occasion, I may trade more if I'm feeling up to it. Overtrading feeds your emotions as well and any time you trade with high emotions, you are setting up to lose. Even if you are not consciously aware of it, high frequency trading does indeed, affect your emotions.

6. Not every day will be a trading day. There are days when the conditions just are not ripe, the indicators are not setting up or you are not feeling up to it. If you are not physically or emotionally 100%, it's likely not a good idea to enter the arena. It is important to be 'on' when trading. A simple nasal cold can keep me away, knowing I will more than make up for the lost opportunity the next day.

7. If you ever feel stressed, don't trade. Some folks are pressed for time and try to force a trade, all too often resulting in losses.

It's always better to not be in a trade wishing you were, than to be in a trade wishing you weren't.

10. Moral Obligation

The only surprise about this attribute is that it didn't appear sooner on our list. When one accumulates wealth - real or perceived - through trading, you will have 'options' as to what to do it. With trading comes responsibility, just as you would have with the consumption of alcohol.

This particular characteristic jostled my mind for inclusion when I recently had interaction with one trader who lost $3 million in the last 10 years, mostly from friends and family from overseas. From what I gathered, none of these 'investors' truly had the means that they could afford to lose this money. The person trading had little knowledge about trading but obviously enough to lure others into giving her the cash to trade. Or, she lacked the character to say 'no' when requested to trade others' money.

As traders - especially perceived as being knowledgeable or successful - you will be approached by others to trade on their behalf. All this sounds very flattering and even enticing as they offer to split the profits. I too, am not immune to such sentiment and even accepted a friend's cash, which in this case, worked out well. Would I do it again? Not on your life.

At some point, you must ask yourself how you would feel if the inevitable happened. Could a friendship survive the loss of the money? Even if so, those uncomfortable underlying currents will always be there and may not be worth the risk.

<u>What to do:</u>

1. Just say no. The pressure will be all yours and the gains will simply not be worth the stress, especially as your 'client' calls you daily for an update on your trading. Your job will be onerous enough, compounded by the hounding, especially if/when a trade turns against you. Just don't engage.

2. If you need to validate your stance, consider that if you are not licensed to trade other people's money, you could be looking at serious ramifications, including imprisonment. There is an apparent witch hunt on for such criminals, as well meaning as they may have started. Many start innocently, leaving behind a trail of broken lives.

3. If you really want to 'be a friend', either teach your contacts what you know or better yet, send them to an expert trainer who can assume the responsibility.

I am often asked about referral programs. While we have nothing formal, rest assured we do our best to show appreciation with extended courtesies to anyone who brings others forward.

This kind step, most importantly, immunizes you and your friendships.

11. Avoiding the Vague

Perhaps better referred to as 'fear of the unknown', we avoid what we don't know or is not totally clear to us. A human condition is to feel secure in our comfort zone. Successful options trading can take us out of this zone quite quickly and by surprise. It is quite possible to start with $3,000 and within a month, be living an opulent lifestyle.

I am reminded of one client who came to me with about $2,000 to start trading with. Jay had learned this material quite well and quickly became a successful day trader, soon running his account up to about $20,000. Then within several days, he managed to lose most of it. When he dropped back down to $2,000, he approached me again and together, we worked it back up. Again, $20,000 and down it came.

I soon picked up the pattern after a few cycles of this behavior and determined that Jay was actually afraid of success in the market. For some subconscious reason, he feared making money, or deserving of this great wealth which he now had the capacity to create. He was an excellent trader, disciplined, patient, knowledgeable, who could make money but had great difficulty in keeping it. We instituted an action plan which seemed to take the edge off his self sabotage.

<u>What to do:</u>

1. Jay's problem was that he found 'resistance' at his $20,000 profit level. His account would hit this lofty goal he had at which point something would happen and it would bounce back down. So I suggested that he run it up to about $15,000 and then transfer $10,000 back to his regular bank account. This way, he would always be on the road to his target balance without actually reaching it. This was our ultimate solution after trying to increase the goal, which didn't really take hold. By transferring his cash out, he could still work towards his humble goals yet continue to reap the benefits of his efforts.

2. As mentioned in the past, hide your account balances so you are not influenced by your status. Just focus on putting forth great trades; the profits will naturally occur.

3. Step 'out of your box' slowly. Get used to it before expanding. Consider that you truly deserve this new found wealth as it unfolds because you took the risk, one most people would never consider. This is your well earned reward and you are entitled to the benefits.

4. Those with the money are the ones in control. As you gather more of it, you will attain more control. More choices will be made available to you... where to go for dinner, where you can live, what schools to send your kids. Money is good because it gives you these choices, even important ones, such as seeking medical care, giving to your charities of choice and helping others. Anyone who claims money doesn't buy happiness or is the root of all evil simply doesn't have any. Affluent folks are generally the happiest and most generous and giving of themselves.

Accept your wealth with grace and use it to its fullest. As you do, your fear of the 'unknowns' will also subside and you will be more willing to take on more risks.

12. Treat Trading as a Business

Treat trading as the business that it is, and it will pay you as such. Treat it as a hobby and expect it be nothing more.

I am reminded of a client, Albert, who kept coming on for all the freebies he could snag. Even under different names, he would pop in and out on the trial versions back in the days we provided them. He would amass bits and pieces of information and hope to use this to learn day trading. Unfortunately, this is a business that sometimes having snippets of information is worse than having none at all.

Albert also had a habit of doing this with other services and combining his knowledge, picking and choosing various elements he had collected. He would also consult his friends for trading advice.

My problem wasn't so much that Albert was using me or not paying his fair share in the program, although that was a concern, but rather that he was setting himself up for failure. Perhaps 'ruin' is more apt. One day, he contacted me, clearly with tears emanating from his email, having lost about $15,000. I felt horrible for Albert and asked what happened. Turned out, he lost his life's savings on WMT. "What's WMT?", I questioned (of course, I know it's Wal-Mart). "We don't trade WMT. Why would you buy that?" His reply: "My friend told me to buy it."

I'm so sorry, Albert, I wish I could help you. But if you don't engage, pay attention and follow what your mentor is saying, you're on your own. You'll have to check with your 'friend'.

<u>What to do:</u>

1. Budget as you would any other business. Trading has the unique distinction of being able to start on a shoe string budget and make extraordinary profits in a short period of time, unlike any other business. However, you still need certain key things:

a) budget for equipment

> (i) you need a good computer, preferably with two monitors. Spend the money for at least 20" monitors you can comfortably watch for extended periods. They are not expensive.
> (ii) your computer needs to be able to handle the loads put on it. You will require enough strength to power various programs without any hiccups. As soon as there's a twitch, get it fixed.
> (iii) uninterrupted power supply (UPS). It's cheap insurance, should you be in a trade and the lights go out. I've had occasion to use mine twice, so it paid for itself.
> (iv) hi speed, reliable internet connection. This is not the place to squeeze pennies. I opted for the highest speed available and the better modem with built in redundancy.

b) budget for training
Don't be an 'Albert'. Assess what you need to learn, how quickly you plan to get there and plan accordingly. If you know nothing about trading, but wish to proceed with our system, a budget of several thousand dollars should be more than enough to get you to trading successfully. But do consider training to be an essential part of the process. Some traders come to me after they lost. Be proactive. Invest in yourself first, then the stock market. 'Pay for training or pay the market', as they say.

c) budget for trading losses
As painful as it is, you will have losses during your training period, even after. It is inevitable and every successful trader has gone through them. Budget that your account will likely take a dip before it starts to grow. This is akin to many new business startups that have negative cash flows for a period before realizing profits.

d) budget for taking profits
Remember why you are doing this. Expect to take profits and take them. Keeping them in the trading account may entice you to trade beyond your plan and exposing greater risk. Rewarding yourself for your success is important.

2. Review your business plan from time to time. Just as any business model, you need to stay on top of your business model and make adjustments as necessary. Be realistic in your approach. Accept that there may be hurdles and contingencies you may not have considered. It is those who plan longer term who stay in the business the longest, weathering the storms along the way.

3. When you find a program or mentor you can work well with, stay the course. When you slip, assess the situation and move forward, making minor tweaks along the way. Changing the entire program or mentorship should only be your last resort, if at all. I see many traders change strategies like they change their shirts. They follow something until they lose, then claim it doesn't work and move on to the next venue. Often times, it is just one minor adjustment that means the difference between profits and losses.

4. Listen only to your coach. If you invoke the services of a mentor, rely on his/her expertise to carry you through. The advice must make sense and question anything you may not understand; not everything may be self evident. However, diverting to your 'friend', as Albert did, proved to be fatal to his account.

13. When it's no longer fun...

There may come a day when trading becomes onerous, cumbersome or even painful. We all get into the occasional funk, where nothing we seem to do is right. Losses mount and no matter what we do just seems to be wrong.

All traders go through this from time to time.

What to do:

1. Immediately stop trading. Continue as in the past and expect similar results: losses. Evidently, something's gone amiss. You have to figure it out first, even if it's just taking a break.

2. It may be a time for change. Determine that one thing that is costing you. It could be something as simple as pulling the trigger too late or staying in trades too long. Often times, that one change is all it takes to turn your fortune around.

3. Ask for help. Most traders like to see others do well. Nobody enjoys watching other traders lose; we all feel the discomfort. Consult your mentor or coach. A good one should be available on relatively short notice and should be able to help identify and fix the problem.

If you do need assistance, please don't hesitate to reach out.

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A final word about this e-book: There was a time not that long ago, when technical traders were dismissed, almost ridiculed by the fundamental traders. With the internet and the proliferation of online trading, super computers, black boxes and other technologies, the attitude is anything but negative now.

The future of trading will likely be towards mental trading, how we anticipate the thought patterns and behaviors of the trading masses. It's exciting to stay on top of this evolution.

In summary, this project will undoubtedly be enhanced over time as new ideas are revealed. Newer versions will be published when there are material changes included.

~ Hugh

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