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# **MASTERING TRADING PSYCHOLOGY**

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***Improve Your Trading with Firsthand  
Reports by Real-Life Traders***

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## **DEDICATION**

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*“Alone we can do so little; together we can do so much.”*

—**Helen Keller**

This publication is wholeheartedly dedicated to the Bear Bull Traders and Peak Capital Trading communities of traders, who went above and beyond to share their personal failures and triumphs with us. Serving Bear Bull Traders and Peak Capital Trading has been the most humbling experience of our lives. Our members' support and willingness to accept us as mentors has made us better traders, authors, and persons in life.

Thank you, Bear Bull Traders and Peak Capital Trading. Sincerely, thank you, each and every one of you.

# **FOREWORD**

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**M**uch like professional sports, trading is a high-performance activity. Traders need to be in their best possible state of mind both emotionally and psychologically, and their cognitive thinking must be free of bias or pre-judgment. There is a fine line between calculated risk taking and gambling. Traders need to be aware of and in control of some of the basic and instinctive emotions (such as fear, stress, and anxiety) that have saved humans from dangers through the centuries but can be destructive in modern life. Psychological challenges in trading are not only constrained by our instincts, but also can be affected by the influences of peers, family and society in general. Similar to traffic jams, greed is a by-product of human civilization, and it can be extremely dangerous for traders without a keen understanding of the role and significance money plays in their lives.

The technology boom, along with widespread high-speed Internet use, social media, and new devices and apps, has made everyone with even just a passing interest an armchair expert in the world of investing or trading. While the financial markets once belonged exclusively to the elites of Wall Street, today's teenagers are now trading their parents' accounts by utilizing complex financial instruments like Options or Futures. As trading becomes more widespread and more accessible, so do technical knowledge, tools, and platforms for trading. There are now more and more useful resources on trading than ever before. Andrew Aziz has previously authored several books on the technical aspect of trading. However, as he gained more experience, he realized that the silver lining in trading is not in technical knowledge, technology or better computers, but it is in the minds of the traders themselves. That is why he wrote this book to help traders use "mental skills" to maximize their trading performance.

I have been working with the Bear Bull Traders and Peak Capital Trading communities as their in-house performance coach/psychologist and have seen the kinds of challenges the trading communities face with the psychological aspects of trading. Andrew organized this book as a compilation of real-life stories from traders. As we read each chapter and learn from each experience, we can empathize with the pain and discomfort that these traders have felt. Andrew is a trader himself, and has personally experienced the emotional and psychological stress associated with sub-optimal and poor trading decisions. This firsthand knowledge has contributed to his success in organizing this book into an easily understood and often entertaining format.

I hope you enjoy reading this book as much as I have enjoyed writing this foreword.

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Managing Partner

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Austin, Texas

# ABOUT THE AUTHORS

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**Dr. Jonathan F. Katz** is a licensed psychologist and founding partner of High Performance Associates (HPA), a specialized team of performance coaches whose mission is to enhance and maximize the performance of individuals and teams. As an HPA partner, Dr. Katz has served as the performance coach for a broad spectrum of clients in the sports, trading, and business worlds.



**Dr. Andrew Aziz** is a Canadian trader and proprietary fund manager at Peak Capital Trading, a Forbes Council member, an investor, and a #1 best-selling author. He has ranked as one of the Amazon top 100 best-selling authors in the *“Business and Finance”* category for over four consecutive years. His books on finance and stock market trading have already been published in eight different languages (English, Chinese, Portuguese, Russian, French, Spanish, Vietnamese, and Japanese).

An entrepreneur since childhood, Andrew actively invests in FinTech companies related to the development of AI for trading. He is the founder of Bear Bull Traders, an online community of independent day traders that is dedicated to make trading better for everyone. When not at his trading station, Andrew enjoys trail running, climbing, skiing, and high-altitude mountaineering. He is currently on a mission to climb the highest volcano and the highest peaks on each of the seven continents.



**Mike Baehr** is the Chief Training Officer at Peak Capital Trading and one of the trading coaches at Bear Bull Traders. Mike previously served in the United States Marine Corps, retiring with the rank of Sergeant Major after 23 years of active duty. During his time in the military, he devoted countless hours to teaching, mentoring, and inspiring generations of Marines in areas such as leadership, discipline, and resilience. As Mike began to conquer the learning curve of trading, he soon realized that the skills he taught Marines were also very relevant for traders as they work to master the psychological challenges inherent in trading on the stock market.

While building the curricula for Peak Capital Trading and Bear Bull Traders, Mike has had the pleasure of collaborating with several different trading psychologists, including Dr. Jonathan F. Katz. With Dr. Katz, Mike has developed a series of trading psychology educational webinars on subjects such as dealing with losses and uncertainty, becoming disciplined, practicing mindfulness, and being resilient. Mike has been happily married for 20 years and has two wonderful children. Outside of trading, he enjoys spending time with his family, volunteering as a soccer referee, and running.



# **INTRODUCTION: A BOOK FOR (AND BY) TRADERS**

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*“Individually, we are one drop. Together, we are an ocean.”*

—Ryunosuke Satoro

## **WHY THIS BOOK?**

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Over the last several years, I have guided thousands of traders in our Bear Bull Traders community. More recently, I have also been assisting traders in our newly launched proprietary trading firm. Working with some of our veteran traders, we together developed a series of educational materials for new traders that was designed to walk them through the entire trading process—from the basics all the way to some of the best advanced strategies used by the most experienced of traders. My goal was to help new traders to be independent thinkers and to adapt to various market conditions. I really believed that our trading material was first class. We made every reasonable effort to keep it current and relevant, and it was constantly being updated with the latest trade examples. Our chatroom and forum were available for novice traders, senior traders, and everyone in-between. Our members could discuss whatever was on their minds and help each other to grow in their trading abilities. I was under the impression that we had everything necessary for a new trader to succeed. And then I read some comments from two of the best new traders in our community.

Robert was a trader in Vancouver, Canada whom I had met at the outset of his trading journey. He was a senior manager at

a major and well-respected consulting firm before he decided to embrace what he had long been passionate about and start a career in trading. He was very smart. He soon learned the trading platform we use, DAS Trader Pro, better than me or anyone else in the chatroom. He was the person to go to if you had any technical questions. I knew we had a rising star. In those days, my friend Brian and I were the only moderators and educators in our community. I was desperately looking for new talent to add to our team, and I became convinced that Robert was that person. I knew that I would soon have him on board as our community's third educator and moderator. Let's read about his trading experience together, in his own words:



“

“This is embarrassing. I was doing so well alternating between real and simulator this whole week. These were my results:

- **Monday:** 4 green trades out of 4
- **Tuesday:** 3 green trades out of 5 trades
- **Wednesday:** 1 green trade out of 1 trade
- **Thursday:** 2 green trades out of 2 trades

**Total:** 10 green trades out of a total of 12 trades: nice profits, and feeling on top of the world!

And today it all fell apart in spectacular fashion. I traded like a maniac and finished with a huge loss. It was all a blur, but this is my recollection of the events in question:

After two small losses 10 minutes after the open, I was a bit shook. Then on my 3rd trade, I made a hotkey mistake

and doubled up my position rather than exiting. That ended in a huge loss. Shortly after that, I made another hotkey mistake and took another big hit. I was a psychological mess. Rather than walking away, I went on a rampage. I started trading stocks not in play (JD, BABA, MU), and was reckless and vengeful. I said to myself, 'Fuck it, let's go!' (literally out loud) and fired away at my hotkeys like there was no tomorrow. By 10:30 AM ET, I was 0 for 7. By noon, I had made 13 trades. When it was all said and done, I had made 20 trades total (not tickets, but trades). Only 2 of them turned out to be winners. Talk about lack of self-control...

I violated every single rule that I had been following religiously all week. I stopped caring about those A+ setups and traded anything that looked marginally good. And since SPY was a roller coaster today, I got destroyed by questionable entries and 'make-believe' strategies. I kept trading the same stocks over and over, even after admitting they were not in play. I was trading like it was going out of style. I thought I could outsmart the market and get back at it. It wasn't even about the money anymore. The losses were a foregone conclusion and had evaporated to currency heaven.

The sad part about this whole tirade was that I knew I was breaking the rules while violating them—and I didn't give a damn about it. In the moment, I turned into the Incredible Hulk and everything switched to autopilot mode. I smashed at my keyboard like a savage. Everything I had learned up to this point in my (short-lived) trading career was thrown out the window. I had literally unleashed an animal that I had no control of. I've never experienced such poor self-discipline in my normal life—ever.

Today was a reminder of how fragile the trading mindset can be. All it takes is one moment—a FILG one [Fuck it, let's go]—to send you spiraling out of control. All of these rules and checklists I had been adhering to were useless in the face of such madness. They were nothing but delicate paper walls I had erected to trick myself into believing that my emotions were in check. They came crumbling down under the slightest pressure. It was all an illusion; I was delusional.

I have a lot of reflecting and contemplating to do this weekend. I might take a break from trading to rebuild my psyche. Maybe I'll visit a monastery to cleanse myself of all these trading sins. But first I need to forgive myself. Now I'm just rambling like a fool.

Thanks for reading, and remember—don't trade like a crackhead.

/rant”

I was shocked. I was his trading educator and mentor. What could I have done better? I could not get that question out of my mind.

Another trader, who I will call “Trader Siri,” was a senior engineer in a giant Silicon Valley high-tech company, and he was also my student. Since he was living on the West Coast and in the Pacific Time Zone, he wanted to trade in the mornings and be at work around 10:00 a.m. Similar to Robert, he was smart and very motivated about trading. I was proud that we had him in our class. A few weeks after he graduated from his training, he began live trading, Trader Siri emailed me, and I was very much caught off guard by his comments. Again. Let's also read his story:



“

“Hi Andrew,

I traded very badly and blew up half of my account. My main problems were -

- 1) Fear and carelessness in cycles
- 2) Bad position sizing. (Initially I went small size—100 shares. But commissions were beating me up. In my initial days I was having net loss although I realized profit in the trades. Then I wanted to double the size and reduce scaling out—but that made it worse when I entered the wrong trade.)
- 3) Revenge Trading—sometimes I opened the terminal in the afternoon just to watch the market, but I ended up trading and made bigger and bigger losses
- 4) A few times I did mirror trading by copying someone out of desperation, but I did not plan my share size correctly

I plan to take a little time off and study more, and get my psychology right. I made known mistakes, which is why I am more frustrated and angry with myself.

I thought trading was going to be easy and I knew all the basics, but in reality I managed risk poorly. I will work on this, and I hope my next attempt will be better.

Temporarily I will unsubscribe from the chat room—I am confused and want to take some time. I will join back shortly.

Thanks much.

Regards,

Siri”

What was going on? What went wrong?

It is not difficult to understand after reading these comments that the problem these talented new traders encountered was not because of their technical knowledge, their account size, or their tools and platform. It was their psychology of trading. Not only do traders need sound technical skills and money management knowledge, they also need the right psychology to put their knowledge and skills into profitable practice.

Stories like those told by Trader Siri and Robert are not uncommon. When I asked the traders in our community to share their thoughts on this issue, I received many similar stories. Here are two of them.

Ryan wrote to me:



“

“My name is Ryan. Every morning I practice simulation trading. I’m still in a learning process, and I would like to expand my knowledge in day trading. Not long ago, I blew up my account badly in option trading due to my greed, lack of self-discipline and very limited knowledge of how the stock market moves. All of my money in the bank is gone, which includes my saving and CD [certificate of deposit] accounts. I am still very upset with myself, and I wish I had never done anything crazy like that. I really want a second chance to get that money back. I want to be the best trader.”

Peter’s story was even more shocking. He wrote to me: “I recently began trading cryptocurrencies and during one month I made \$70,000 and quickly proceeded to lose it all! At the time, the cryptocurrency market was

undergoing exponential growth. Because the market was rising so rapidly, I believed that it was a rare opportunity to make profits quickly, and I didn't want to miss it ... the result is that my trading account took a \$50,000 hit, wiping out the majority of my profits in less than 48hrs.”

These are familiar stories. I am sure that many of you reading this book can relate to what Ryan and Peter experienced. So many new traders start out with high hopes and then proceed very quickly to wipe out their account. Some lose their entire life savings. Literally. Everything is gone. They walk away from day trading, or whatever other form of trading they had commenced, and may never financially recover from the hit.

As I read the stories that members of our trading community shared with me, it confirmed something that I had sensed for a long time. In training for trading, there needs to be an emphasis on learning about psychology as well as on learning about methodology.

The psychology of trading is one of those mysteries of our profession. Many trading educators blame their students' psychology for their losses when, in fact, the students are just not skilled enough to be profitable. Not surprisingly, many beginner traders believe they also have no choice but to blame their losses on their psychology when, in reality, they probably have not received sufficient education (including learning one solid strategy, practicing it, and then practicing it some more) in order to be profitable.

When I started day trading, I tried to learn as much as possible about the market and how it works. Every few days, I finished up an online course or a book. I sucked in every ounce of information that I could find, and, by doing that, I thought I was ready to trade. Wow, was I ever wrong! The more I lost

money, the more money I spent paying for courses, books and chatroom memberships. I thought that I should fairly easily be able to become a consistent trader. I was smart, and I had the right trading personality. What more did I need?

You can be the most knowledgeable person at the trading desk, but if you don't know when to hit the buy and sell, you are going to be a miserable trader. In fact, most of the trading industry's largest losses are incurred by some of society's brightest and most accomplished members: doctors, attorneys, engineers, scientists, CEOs, wealthy retirees, and entrepreneurs. They are the consistent losers. You may think they lack technical knowledge about the markets, but most of the industry's best market analysts are also the worst traders imaginable. Intelligence and good market knowledge can contribute to success, but these are not the defining factors that separate the consistent winners from everyone else. You may very well ask then, if it isn't intelligence or better analysis, what is it? Based upon my years spent trading, teaching, and mentoring, I sincerely believe it is mindset and psychology.

Once I reached that conclusion, I knew I needed to focus on trading psychology rather than continue to expand my training courses. You cannot have a perfect trading education curriculum without an emphasis on trading psychology. Institutions and proprietary firms are bringing in prominent performance psychologists to work with their traders to improve their psychological hurdles. Individual traders like you and me, sitting in our home offices, also need that edge.

Performance psychologists are common in almost any field. Sport psychologists are perhaps the best-known examples. They help an athlete perform at peak levels and they work on every aspect of an athlete's life, from issues like eating disorders and career transition to personal challenges and post-injury rehabilitation. They closely evaluate how psychological factors

affect performance and how participation in sport and exercise affect psychological and physical factors.

I have come to realize that day trading is very similar to being a professional athlete. Both are judged by their daily performance. Robert, a rising star, lost the sense of peacefulness necessary for trading, and that ultimately threatened his trading career.

## **TRILOGY OF SUCCESS: TECHNOLOGY, STRATEGY, PSYCHOLOGY**

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When we started Bear Bull Traders, we focused on two pillars of success: technology and strategy.

**Technology:** we committed to make available to our members the best trading technology, products and services on the market, including direct-access software, scanners, clearing firms, and discounted brokers. Basically, we would endeavor to use and train our traders with the highest quality and most advanced tools possible.

**Strategy:** we also committed to provide our members with the necessary technical knowledge in every single aspect of trading. We wanted our traders to be exceptionally well prepared before they pressed their buy or sell button for the very first time. You name it—from indicators, moving averages, price charts and candlesticks, to everything that is part of a proper trading plan—is taught in our firm and community.

But those two pillars were not enough. Very quickly, as you will read in the pages to come, we learned that technology and strategy were insufficient. We needed one more pillar in order to build the base of success for our traders, and that pillar was **psychology**.

My friend, and co-author of this book, Michael Baehr, developed a series of psychology-oriented modules, webinars and workshops to help our traders at Bear Bull Traders and Peak Capital Trading in their journey. Over time, we also hired three psychologists and one mindfulness coach. And the feedback was phenomenal.

Technology, strategy, and psychology are the three pillars of success in trading. If you remove one, everything else collapses. It wasn't difficult to provide the best technology to our traders. Once upon a time, advanced trading tools and systems were available only to the Wall Street elite, but recent breakthroughs in technology, as well as the information boom, have made trading technology universally available. Just as one example, everyone can have access to a powerful and discounted trading platform these days, even in their smartphones. In addition, strategies and the methodology of trading, which were long considered by many people on Main Street to be a so-called "black box", are now readily available on the Internet, and much of the information is free!

But how can someone improve their psychology? It's very easy to toss some trendy phrases into an article or book. Have you heard some of these before? Stick to your plan. Have discipline. Trade mindfully. Be in the zone. You could undoubtedly add to the list yourself. They all sound quite logical. Maybe even encouraging. But what do they really mean? And, more importantly, how can they help you become a better trader? Here are three more: Greed. Fear of missing out. Self-discipline. These types of clichés do not help anyone. They're just words. And they're meaningless without any so-called "meat" or substance being added to them. Merely repeating these kinds of words and phrases will not help anyone. There must be a way to gain insight into your own mind and psyche.

Panagiotis is a junior trader in a proprietary trading firm in London who is also part of our community. When I asked him about the importance of psychology as it relates to trading, he wrote back:

“

“One of the most important parameters that defines whether a trader will be successful or not is psychology. Unfortunately, even though people who try to get into the trading profession have heard and like to repeat how important this element is, what I came to realize is that they are clueless about what they have to do in order to become better on this aspect of the game. Everyone has heard of emotions and psychology, but nobody knows how to really handle it.

The first and maybe the most important point that I've heard over and over again and is repeated between traders is discipline. It almost makes me sick every time I hear someone mentioning that you have to stay disciplined!

Stick to your plan. Yeah sure, tell me something that I haven't heard already 1,000 times just in the last week. And then if you ask them about their trades they will tell you, 'I wanted to do this but I didn't,' and then, 'I should stick to my plan there but I didn't but it would have worked if I did.' So what is the way to stick to the plan?”

Panagiotis's message is important. Just telling yourself to be disciplined is not enough. Neither is it sufficient to take the time to develop a trading plan but then do nothing with it. To be a successful trader, almost everyone needs to make serious

changes in their life, and then those changes must carry over into their trading. How to truly change, though, is the question. I've found that the resources out there are for the most part very vague. There are many books and blogs and podcasts and videos and the like, all designed to help you initiate the necessary change, but very few discuss the next crucial steps. And what are these vital next steps? They're what you need to do in order to sustain the change. In reality, initiating a process of change is not very difficult. The real challenge is sustaining the change and overcoming the inevitable relapses. We've all been there. How many New Year's resolutions are broken by January 15? How often do people start a diet and exercise program, only to relapse and return to their bad habits? How many times does an alcoholic take the initial steps toward sobriety, only to return to alcohol?

Dr. Brett N. Steenbarger, one of the world's most respected trading psychologists, and someone who I have had the honor to meet in person several times, in addition to being mentored by him, commented on the impact of relapse in his book, *The Daily Trading Coach*:



“

“The enemy of change is relapse: falling back into old, unproductive ways of thinking and behaving. Without the momentum of emotion, relapse is the norm.”

Traders need to learn about the psyche and how to sustain change in a different way, in fact in a much more tangible way. That is why I wrote this book. To take you from abstract concepts to real-life examples from inside the minds of real traders like yourself. In this book, you'll study the advice and

wisdom of real traders with a wide range of real-life experiences: from a firefighter to a war veteran, from a professional proprietary trader to a single mom, from a police officer to a college student, from an air traffic controller to a university professor, and many others.

This book takes you into the minds of these traders, so you can learn from them in their own words. It is easy for me to tell you to have discipline and a passion for trading, or to be confident and patient, but these words of mine will not do you any good. You need to learn about these concepts in the context of trading. That is what this book is about. It's about real stories and struggles from people like you. There are enough books already available by trading gurus whose photographs with their private jets, yachts, and sport cars are plastered on almost every page. This is also not a book written by veteran hedge fund managers, investors, or the best market analysts. And it's not written by the best trading psychologists either. This book is written by and for ordinary retail traders like you and me.

Many of us retail traders do not of course have access to consultants and professional performance psychologists. The writings I shared with you a few pages ago from Robert and Trader Siri really shook me. What could we do to help traders in our community? After wrestling with the matter, I decided that I needed to emphasize trading psychology more than ever. I've since invested considerable time in searching for the best available tools out there that can be easily accessed by everyone.

There are literally thousands of books about trading, as well as countless articles, websites, courses, seminars, blogs and chatrooms. Most are intended to help people to become better traders, most focus on the technical aspects of trading, and most are written by experienced and professional traders. But surprisingly, I found that very few really good books have been written on the topic of trading psychology.

Dr. Brett Steenbarger has thankfully published a number of important books on the psychology of trading. A psychologist by training, he has also served as Clinical Associate Professor of Psychiatry and Behavioral Sciences at State University of New York. He has several highly-regarded books, all of them written in non-technical, understandable language, and all of them motivational and full of unique content that I know will help any trader, novice or experienced. I must mention as well that Dr. Steenbarger's *TraderFeed* blog, as well as his YouTube channel, are definitely two of my favorite trading resources.

Another very important contributor to the subject of trading psychology was Mark Douglas. In 1990, he published a book, *The Disciplined Trader*, which has become one of the classics in this field. It is packed with original insights and, some 30 years after publication, remains a best seller. It has vivid trading examples and includes specific mental exercises for traders. Mark Douglas later wrote another best seller, *Trading in the Zone*. In this book he discusses the reasons behind the lack of consistency that many traders encounter. He also helps traders to look beyond the random outcomes of each trade and to understand the true realities of risk by introducing the mental habit of being in the “zone”.

In a 2014 book titled *Trade Mindfully*, trader and psychologist Gary Dayton explains in understandable language how traders can very easily be blindsided by the cognitive biases and mental shortcuts that we all use in our day-to-day lives. He concludes that the very core of our psyche that benefits us in our everyday life can cause us to react irrationally in trading. He introduces the concept of “mindfulness” for traders and offers a detailed framework that incorporates high quality preparation, effective execution, and constructive self-assessment to help traders who want to work on their mental skills in order to become better traders.

All of these books I have mentioned are very helpful, and I highly recommend them to traders. However, after searching through the various resources that are available on the market, I believe there is a need for a more practical trading psychology book for new traders, especially retail traders starting their career from their home offices.

This book is different from the classic trading psychology books described above. I specifically designed it to help readers to become better traders by learning about what goes on in the minds of people just like them – individuals who are fairly new to the world of trading. And although the main text is written by me, I have included authentic firsthand reports from a good number of relatively inexperienced traders-in-training who are part of our community.

In order to obtain the most relevant material for this book, I asked the members in our community to share their experiences with me. An overwhelming number of traders responded to my request and recounted their stories of success and failure. I am very grateful to all of them. I went through every response, and what you will read in the following pages is the result of that work. These stories are honest and they are real. The contributors live in several countries around the world and, as earlier mentioned, have regular jobs in a wide range of occupations, almost all of them unrelated to trading. Except for minor editing and some changes to safeguard the writers' privacy, their reports appear in this book exactly as they were written.

As you read through this book, you will learn about the behaviors and attitudes of a good cross section of traders, and you will gain insights into what makes successful and not-so-successful traders tick. Although the book does deal to some extent with what goes on in the markets and on traders' screens, it concentrates primarily on what goes on in traders' heads. And let me tell you, that is what really matters.

A basic goal of this book is to help you to mentor yourself to success in the financial markets. In undertaking this project, my desire was to convey, at far less cost, more useable information and methods than might be found in expensive seminars and mentorship sessions. It is common in this industry for mentors and seminar providers to do their best to convert traders into ongoing clients. The goal of this book is just the opposite. It is to help you understand yourself better and thus, ultimately, help yourself.

The challenges and uncertainties traders face in the financial markets are just as prevalent in relationships, careers, and all other aspects of life. I sincerely hope this book will help you to master yourself. Disciplined and resilient traders will most likely find success in their other endeavors. This book is accordingly meant not only to make money for you in the markets; it is also designed to be a resource toward your success and satisfaction, both in and out of the financial markets.

## **HOW THIS BOOK IS ORGANIZED**

This book is broken down into nine chapters, and you will notice as you flip through the pages that there are a significant number of quotes from traders, sharing their fears, concerns, frustrations, and hard-earned lessons. These are their own words. I was fortunate to receive permission from them to include their stories and I have made some comments of my own in-between. They truly deserve the credit for this book. The only task I took on for myself was to bring these stories and lessons together in some sort of coherent fashion. I can assure you that this is not your usual psychology book. It is not written by trained psychologists or professional performance coaches. While reading and putting these stories together, just as Dr. Jonathan F. Katz wrote in his foreword, I too could feel the pain

that many of these traders have gone through. The main goal of this book is to introduce you to the amazing and sophisticated roller coaster ride of trading, all with the hope of making you a better trader.

The majority of the contributions in this book are from stock market equity day and swing traders, but in my opinion their messages apply to all types of traders. No matter if you are a forex trader or a crypto fan, an options trader or a futures trader, you will relate to these lessons, albeit perhaps with slight adjustments in order to complement your own preferred trading instrument.

In Chapter 1, you will learn about the world of trading as a business and how it is different from operating a so-called “normal” commercial pursuit or working a typical 9-5 job. Trading is the business of uncertainty, risk taking and speculation. It’s quite akin to playing poker. While poker is a casual and recreational form of gambling for many, those who take it seriously and treat it as such can make a literally amazing living. Traders need to learn to differentiate between their new venture and their old career. Trading is a completely different endeavor, and you need to get ready for it. If I dare say so, the content in Chapter 1 is the place to start.

Chapter 2 reviews one of the most important elements of the human psyche: resilience. We all have seen people around us who cannot get their life back on track following a death in their family, the loss of a job, or the end of a marriage or other romantic relationship. Why is it that only some people are able to rise from the ashes like the phoenix and start afresh? What is it about the characteristics of their personalities that set them apart from others? The answer to these questions is *resilience*, which is in part a measure of a person’s mental toughness. Resilience is one of those mysteries of the human psyche that I have had a fascination with for many

years. In trading, you need to be resilient to be able to succeed. You will fail many times, almost every day in fact, and there will rarely be a week in your trading life that you will not have had at least one very bad loss or one very bad trading day. You must be able to recover from those setbacks, but to do so requires a certain level of persistence that is not often found in other elements of life. In this chapter, I will share with you what I have learned about building mental toughness and how I have trained my mind to remain resilient. I'll also share many real-life stories from our traders who have traveled along this difficult path. May you learn to become a more resilient person, not only in trading, but in all other aspects of life as well.

Chapter 3 will walk you through several psychological perils of trading such as averaging down, the compulsion to turn a small loss into a bigger loss, and revenge trading. These are definitely some of what we could call the occupational hazards of trading. Every career or endeavor comes with such dangers. As an engineer and scientist, my working hazards were toxic nanomaterials as well as high-pressure explosive and toxic gases. We learned about these hazards in a series of safety workshops and, while I was working in that field, I was very alert to them. Consider this chapter as a safety orientation workshop that will walk you through several real-life and at times horrific examples of hazards that you will come across in your trading career.

Chapter 4 is written to help you build resilience in your trading. Following upon the hazards outlined in Chapter 3, I decided in this chapter to compile some of the best practices suggested by our traders in order to help you become a resilient and thus better trader. Spoiler alert: Without giving away the entire chapter, you will read that having clearly defined goals is an integral part of being that resilient trader.

Chapter 5 will walk you through the necessity of staying focused on activities that lead to success in trading. You need

to focus on the process of trading, develop a TradeBook for each strategy you trade, monitor only a small number of carefully selected stocks each trading day, and then deliberately limit yourself to entering into only well-thought-out good and solid trades. The wisdom and advice shared in this chapter by folks trading from a computer sitting on a desk in their home office, just as you are, is aimed at helping you learn how to become a focused and process-driven trader (and those in my experience are the only ones who are profitable and successful).

Chapter 6 centers on how to define yourself as a trader. In today's world, so many people want to be someone else and so many people seek to borrow someone else's success. Ninety-nine percent of the time, that does not work. You can't merely follow to the nth degree another person's path. To use some trading lingo, you can't "mirror trade" someone else's shortcuts. Your life, your trading, and your endeavors are unique to you. No two persons are starting from the same place, no two traders are alike, and no two businesspeople think similarly. Whether you like it or not, and accept it or not, in order to succeed in trading, or many other aspects of life for that matter, you must first learn about yourself and then work to distinguish yourself from others, including your peers, your mentors, and your competitors. It is easy to follow the crowd or search for a leader to mimic, but in reality your life is written by you and it is defined by you. Just as one example, how can you expect to overcome such trading hazards as fear and greed if you do not know yourself or have not defined yourself? Chapter 6 will guide you along the road toward the ancient dictum of *know thyself*.

Chapter 7 discusses the importance of managing your expectations and setting realistic trading goals. My experience has taught me that without proper goals and realistic expectations, many will end up walking away from trading before they have even given it a fair shot. And that truly is a shame.

Chapter 8 stress the importance of a disciplined lifestyle, and its focus on diet, sleep, and exercise is in my opinion one of the most important sections of this book, not only for your trading endeavors, but for all aspects of your life. You will not achieve your true peak performance if you do not attend to what your body requires: a proper diet, restorative sleep, and invigorating exercise. Being active, eating healthy and sleeping sufficiently are important for a clear mind, yet they are the most overlooked parts of the new or developing trader's training curriculum. In this chapter, I will share how these elements have affected my own and other traders' cognitive decision-making when trading. Making decisions in front of fast-paced moving price charts, all the while dealing with extreme emotions, requires a healthy and fully focused mind. Reviewing expert opinion on these topics will demonstrate how important the quality of our diet, sleep and exercise are to our cognitive functioning.

Chapter 9 is the concluding chapter. You will find a summary, broken down by chapter, of the key points referenced in this book.

This book is written not only by Michael and me, but also by many generous traders who shared their stories and learning experiences in our forums and in their personal communications with us. These are individuals who genuinely desire to help others, without reward for themselves, and I am thrilled to still be closely working and trading with many of them in the Bear Bull Traders and Peak Capital Trading communities.

A special thank you needs to go to Mike Baehr, the co-author of this book, one of Peak Capital Trading's and Bear Bull Traders' trading coaches and mentors, and most importantly, a friend to many of our members. Mike retired from the U.S. Marine Corps with the rank of Sergeant Major after twenty-three years of service. The story of how he found our community is an interesting one which I would like to share with you. In Mike's own words:



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“I was touring our workspaces and visiting Marines while deployed to the Middle East, when I noticed Andrew’s book sitting on a makeshift table in the middle of the work tent. I picked it up, browsed through it and asked to borrow it for the night. I ended up reading the first 4 chapters that night and ordering another copy on Amazon, so I could finish it. I did some research and by March [2018] I was a lifetime member attending classes at 2:00am, watching the open, trading in the simulator, and well the rest is history, as I am now trading full time as a part of my life, but not my whole life. Family will always come first from now on.”

Mike’s résumé is very impressive and I am honored to have him in our community. With his experience teaching leadership for the U.S. military, Mike quickly became a leader in developing curriculum for both Bear Bull Traders and Peak Capital Trading, and he established our third pillar of success: trading psychology, referred to by some as trading discipline. Although I began envisioning this book in 2016, a significant factor in its publication has been Mike’s contributions and assistance in bringing all of the information I had gathered in together.

Lastly, please note that while I often use the first person pronoun “I” in this book, you should consider that the book was written by both Mike and me. It is most certainly a collaborative effort.

## **ANDREW AZIZ**



## CHAPTER 1

# **TRADING: A DIFFERENT KIND OF BUSINESS**

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## **TRADERS AS BUSINESSPEOPLE**

**I**n my classes and books, I always emphasize that trading must be treated as a business and, unless you are a trader who works for a proprietary firm or institution, you must consider yourself as a self-employed entrepreneur. And that is different in so many ways from being an employee of someone else. You must develop a different mindset, and that perception will be the main determinant of success in this business.

Different businesses and career paths require different approaches. A day trader looking to leave paid employment and strike out on their own must be aware of this. Unfortunately, many often do not understand that to become a day trader, which is to become a self-employed entrepreneur, means that they are launching a new business. Many also do not realize that it is unlikely their new business will be successful without a dramatic shift in their perspective.

Let's take a few moments now and consider how a self-employed trader needs to think differently than an employee does in order to succeed.

**Traders are responsible for all decisions—good and bad.** Day traders have an incredible opportunity to create an

enviable lifestyle in a way that's not possible when working for someone else. But to succeed, the self-employed day trader must be able to make significant decisions that will impact their trading business. And they must make these decisions alone. They can't wait for things to happen or for someone to tell them what to do. It's up to them to make it happen. Successful day traders also understand that opportunities may be short-lived. At times they will have only a few seconds to make a decision, and so the development of a sense of urgency will help them achieve their goals.

Regardless of the industry or sector, few employees need to do that. Even among professionals, there are very few positions where a person is solely responsible for their own decisions. For example, doctors and surgeons often perform surgery in teams and therefore make critical decisions together. In engineering, the decisions of junior engineers must be reviewed and stamped or sealed by professional engineers, and even the most senior professional engineer is accountable to a regulatory body if they make a wrong decision.

This can sound trivial, but the first question you need to ask yourself is, *“Are you an independent decision maker?”* If you are not, you should not be in the business of trading. There is no shame in that; some people just work best in teams and as subordinates. A prime example is General George Patton, one of the great American military heroes of the Second World War. General Patton was America's top troop commander. Yet when he was proposed for an independent command, General George Marshall, the U.S. Army Chief of Staff, and arguably the most successful picker of men in the history of the U.S. military, said, *“Patton is the best subordinate the American army has ever produced, but he would be the worst commander.”*

Some people work best as team members. Others work best alone. Before you start trading, you should ask yourself this question: *“Do you perform best as a decision maker or as an adviser?”* Many people perform effectively as advisers but cannot handle

the burden and pressure of making difficult decisions with speed, self-confidence, and courage. A good many other people, by contrast, need an adviser to force themselves to think. Then they can make decisions and act on them.

By the way, these comments are not applicable just to day trading. They are true for many other careers and aspects of life. Often the number two person in an organization will fail when promoted to the number one position. Why? Because the top position in any organization requires a strong decision maker. Those number one decision makers often put somebody they trust into the number two spot as their adviser – and in that position the person is outstanding. But, in the number one position, the same person will fail. They know what the decision should be, but for some reason they just cannot accept the responsibility of actually making it.

One day, one of our members, Abiel, was browsing the Farnam Street website when an article entitled, “*OODA Loop: What You Can Learn from Fighter Pilots About Making Fast and Accurate Decisions*” caught his attention. Abiel notes that the article discusses the OODA Loop, a practical concept designed to be the foundation of rational thinking in confusing or chaotic situations, developed for fighter pilots by strategist and U.S. Air Force Colonel John Boyd.

Here’s part of Abiel’s post to our forum:



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“OODA stands for Observe, Orient, Decide, Act. Boyd intended the four steps to be repeated again and again until a conflict finishes:

**1. Observe:** The first step in the OODA Loop is to observe. At this stage, the main focus is to build a comprehensive picture of the situation with as much accuracy as possible.

A fighter pilot needs to consider: What is immediately affecting me? What is affecting my opponent? What could affect us later on? Can I make any predictions, and how accurate were my prior ones? A pilot's environment changes rapidly, so these observations need to be broad and fluid.

And information alone is not enough. The observation stage requires awareness of the overarching meaning of the information. It also necessitates separating the information which is relevant for a particular decision from that which is not. You have to add context to the variables.

The observation stage is vital in decision-making processes.

**2. Orient:** Orientation, the second stage of the OODA Loop, is frequently misunderstood or skipped because it is less intuitive than the other stages. Boyd referred to it as the 'schwerpunkt,' a German term which loosely translates to 'the main emphasis.' In this context, to orient is to recognize the barriers that might interfere with the other parts of the process.

Without an awareness of these barriers, the subsequent decision cannot be a fully rational one. Orienting is all about connecting with reality, not with a false version of events filtered through the lens of cognitive biases and shortcuts.

Including this step, rather than jumping straight to making a decision, gives us an edge over the competition. Even if we are at a disadvantage to begin with, have fewer

resources or less information, Boyd maintained that the orient step ensures that we can outsmart an opponent.

**3. Decide:** Having gathered information and oriented ourselves, we have to make an informed decision. The previous two steps should have generated a plethora of ideas, so this is the point where we choose the most relevant option.

Boyd cautioned against first conclusion bias, explaining that we cannot keep making the same decision again and again. This part of the Loop needs to be flexible and open to Bayesian updating. In some of his notes, Boyd described this step as the hypothesis stage. The implication is that we should test the decisions we make at this point in the Loop, spotting their flaws and including any issues in future observation stages.

**4. Act:** While technically a decision-making process, the OODA Loop is all about action. The ability to act upon rational decisions is a serious advantage.

The other steps are mere precursors. Once a decision is made, now is the time to act upon it. Also known as the test stage, this is when we experiment to see how good our decision was. Did we observe the right information? Did we use the best possible mental models? Did we get swayed by biases and other barriers? Can we disprove the prior hypothesis? Whatever the outcome, we then cycle back to the first part of the Loop and begin observing again.

Boyd developed this strategy for fighter pilots. However, like all good mental models, it can be extended into other fields. So, I googled OODA and Day Trading, and our good buddy, Brett N. Steenbarger, author of ‘The Daily Trading Coach,’ came up.

Right in his website, there is an 11-page article entitled, ‘Trading as Mental Warfare’. In this article, Steenbarger explains how trading, like the battlefield, offers an environment typified by risk, danger, and uncertainty, rewarding the efficiency of mental processing. The successful trader is one who can rapidly observe market conditions, orient himself, integrate information into effective decisions, and quickly act upon those decisions.

So, let’s watch ‘Top Gun’ again!”

Peter, my friend and colleague at both Peak Capital Trading and Bear Bull Traders, responded to Abiel’s post as follows:

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“Great articles, and I love the thought process. The key in this is not only to understand the principles of OODA but to practice them, to be able to apply them rapidly and without hesitation in high-pressure situations (e.g., active trading). Seems to me we can play with this during the slower times of the day (late mornings and afternoons) and as we get better and faster, move them forward to the early morning and the open.”

While you can work at changing your mindset, you cannot change yourself. The people who try to change who they really are, are generally not successful. But you can work hard to improve the way you perform. And you should always try not to take on work that you cannot perform or will only perform poorly in. If you do not think trading fits with your personality,

leave it. Trading is not the only career that will give you a flexible lifestyle and a high income. There are many other career paths or new business opportunities available for you to pursue.

When should a person quit trying to learn how to day trade? How should a “trader in training” go about making the difficult decision that day trading may not be for them? Some time back I received an email asking these types of questions. The trader asked:



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“Is there any criteria to determine when to quit trying to learn trading? ... is there any criteria when to decide if you just don’t have the skills to keep trying?”

It’s an interesting question because this person has not blown up his account. He is not even trading live yet. But he wants the answer to this very important concern. Almost all of the stories we hear of people deciding to quit come from traders after they have blown up their account. This trader wants to prevent that from happening, and he wants to make the right decision while he is still in the simulator. I sincerely appreciate this genuine and fair question. It’s a very important point, because learning to trade takes considerable time and energy, and of course there’s also a financial cost involved. This person further explained in his email:

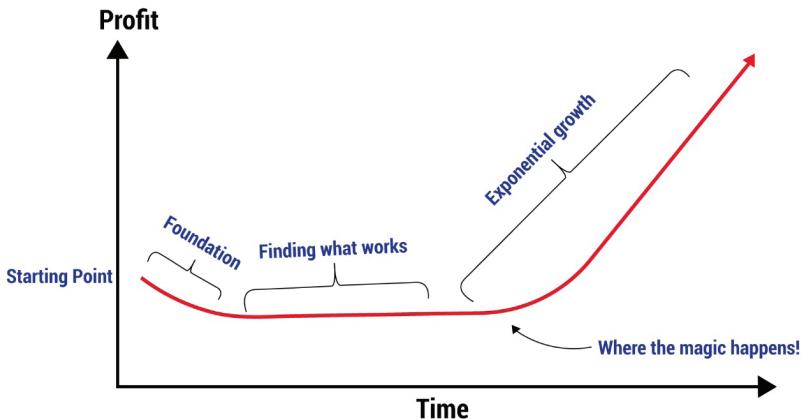


“

“I spend 20 hours a week training. Eight hours a week on the DAS Trader Pro simulator and 5 hours on the DAS replay feature and re-trading my TradeBook (usually on weekends). Then 1 hour a day reviewing my trades, watching other recaps and reading books. So I am taking it seriously. My 20 hours is pulled from sleep and spending time with my family so it is costly and I don't just want to throw it away.”

Honestly, I don't know the answer, and I don't actually think there is any solid answer to this trader's dilemma. It depends in large part on a person's life and situation as well as on their level of resilience and determination. If day trading interests you, you should definitely give it a fair shot, but also put some limit on how much energy, time, and money you will initially invest in it. Like starting any other business, after a reasonable period of time has passed, you need to review your situation and make the difficult go/no-go decision.

For the early stages of a business, investors and entrepreneurs often discuss a model of financial projection known as “hockey stick revenue growth” (see Figure 1.1 below). Any new business or venture usually struggles to be profitable for a while before it takes off and becomes very profitable.



**Figure 1.1: Hockey stick forecast for your new venture.**

Many businesses never take off and simply die, but that should be no surprise for both the investors and entrepreneurs because that is the risk of doing business. The hockey stick model is with us in a variety of aspects of life. For example, many people choose to take loans and use credit for their studies and degrees with the hope of paying the debt off later when they graduate, and most, of course, do.

If you look at day trading as a business, and I hope you do, you should also expect to see a hockey stick type model. For sure, you will struggle at the beginning and lose some of your capital. It's almost guaranteed because the learning curve for day trading is steep. But in time you will experience more and more good days, and your results will become more and more consistent. The key is to stay in the game. Day trading is a marathon, not a sprint.

Having said this, there is no shame in failing as a trader. The real shame is in not pursuing your dreams. If you are passionate about trading and never try it, then you will live your life wondering what might have been. Life is too short not to embrace new challenges. To take on any challenge in life and then fail is

clearly honorable. If you have the courage to take a chance and try day trading, that decision will serve you well later in life. The next career change or challenge you accept might be the one that works out for you, and what you learn about yourself in the process will be invaluable.

After reading one of the emails that I had sent out to our community back in 2018, the co-author of this book and now one of our key members, retired Sergeant Major Mike Baehr, posted the following in our forum:

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“After reading the email from Andrew about ‘When to Quit Day Trading,’ I wanted to offer my perspective as I am in almost the same predicament as the trader Andrew referenced.

My current trading career is a few months in the simulator and some live trading.

I am an active-duty United States Marine who is about to transition from the military after 22 years of service. I originally planned on becoming a Forensic Accountant upon retiring from the military. I have acquired my Bachelor’s in Accounting and a Master’s in Forensic Accounting, and I achieved a Certification as a Certified Fraud Examiner; however, after being introduced to and reading Andrew’s book, I have decided to invest all of my time to becoming a day trader prior to my retirement from the military in December 2019. I found myself continuously asking the same question as this trader referenced:

‘Is there any criteria to determine when to quit trying to learn day trading?’

I believe the answer to the trader's question is:

'When you as a trader and your family no longer have the desire or ability to accept failure as a possibility.'

As long as you and your family have the desire to learn, work, and sacrifice for this career, then you should pursue it. During my time in the service, I have been away from my wife, son, and daughter more than I have ever wanted to be. I currently work away from where my family lives. Monday through Thursday it is easy to focus on day trading and learning; however, due to connectivity issues in hotel rooms, I spend at least 10 hours on the weekend watching the mentorship webinars and classes, reviewing my journal, and developing the next week's trading plan.

I have found the best thing is to communicate with your family on why you are doing what you are doing and get their acceptance. My family views my time spent learning to day trade as a way that they will get to see me more in the future. They honestly have become more upset with me when I don't put forth my full effort on the weekends to learning day trading, as they have bought into the fact that becoming successful in this business will allow me to spend more time with them.

I could easily retire from the Marine Corps and become a Forensic Accountant Intern; however, this career path would still keep me away from my family, so we (my family and I) have decided that \$x amount is worth risking to learn to day trade. If I lose that amount, then, oh well, it was worth it and I will move on to something else; however, if I don't, then my family and I will have a great life day trading while getting to spend more time together."

Jason, another one of our members, commented as follows:

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“I've had several setbacks in my journey to becoming a full-time day trader. I traded in the simulator for 4 months, finally gained some momentum, reached a level of simulator trading that was consistently profitable, made some small gains in real trades to start building thicker skin trading real money...

Then I lost my job.

It wasn't because of trading, but it did result in me needing to empty my trading account. It's amazing how long it takes to establish something that can go away in an instant. I didn't blow up my account, but it felt the same.

Two months of unemployment later and I was back in an office working a consulting contract for more money than before, but with a lot less free time. In the office by 8am. No time to trade or even watch the chat. No point maintaining a trading platform or scanner subscription. No point even studying or reading because I know myself enough to know I won't retain it if I don't get to practice.

I didn't quit. To me, quit means never going back. I prefer, 'When should I re-evaluate my approach?' I think that is a question a day trader should be asking themselves every day and every minute because that's the nature of trading. So I re-evaluated my approach.

I knew my contract was 6 to 9 months. 6 to 9 months of no trading, so I adjusted my trading plan:

1. Find a job with enough flexibility to allow me time in the morning to trade.
2. Rebuild my trading account.
3. Re-develop my long-term plan to reach full-time trading.

It took 6 months, but I found the new job. I started 4 weeks ago and for the last week I've been able to join the chat through the open. I didn't quit. I don't want to quit. Personally for me, I've decided that day trading ticks all the boxes of what I want to do to earn a living. I know 90% of traders fail, and I know many of the reasons why. I think self-reflection is THE key skill a trader needs, and unfortunately I don't think many people who approach day trading appreciate that.

**Self-reflection counteracts self-deception and reinforces self-reliance.** To me, the time to quit is when you've been honest enough with yourself to accept that you either don't really want to be a day trader, or, more likely, you fell in love with the idea of day trading and found the work too daunting. Like any career, it isn't for everyone. But if it is for you, don't ask yourself when you should quit, ask instead, 'What do I need to change to succeed?' "

**As a trader, feeling uncomfortable is your new "comfort zone."** As an employee, you're used to thinking "inside the box" rather than outside of it. When you work for others, you are mainly responsible for ensuring that what needs to be done immediately gets done. As a trader, there is no box. You see what others don't, you test new ideas, you seize new opportunities, and you take risks. This requires courage, the ability to keep going despite rejection and skepticism, and the development of a new mindset.

Armin, one of our European traders, has been working as an air traffic controller for 23 years (as of the time he wrote to me). He was shocked when he started trading because he found he could not pull the trigger and enter the trade. For 23 years he was trained not to make any mistakes or else the result would be catastrophic. A trader, on the other hand, has to operate with a different mindset, one that is mostly based on probabilities and the taking of risks on trades with unknown outcomes. He wrote to me:



“

“Andrew,

I often find a good entry and I prepare to use my hotkeys to enter the trade. But I start becoming nervous. Is it the right pattern? Is the volume coming in? How is bid and ask on the Level 2? How big is the spread? I cannot enter the trade. It's not possible for me.

**I cannot make a mistake.** I have been working as an air traffic controller for 23 years and so I am programmed that mistakes can cost lives. Even if I provide not enough separation between the aircraft, there will be an investigation, interviews, filing reports. That is to be avoided at any cost.

So I have really big problems to accept failure. Failure is not an option for me.”

What Armin has experienced is normal for many people when they begin trading. According to some statistics, an average private trader in the United States is a 50-year-old, married, college-educated man, and often a business owner or a professional.

These traders start their journey after or in parallel to their original career path. It is therefore important for them to realize that trading is different and that it will take time before they will be able to think as a trader. You should be prepared for this before you start trading.

In trading, learning is a continuous journey. As an employee, you have a job description that requires a specific skill set. Being an entrepreneur involves learning many new skills, unless you have the funds to outsource what you're not good at or don't want to do. This might include learning to set up a spreadsheet, getting investors on board, marketing your ideas, crafting your perfect pitch, or using unfamiliar technology. What needs to be done, has to be done—there is no room for excuses.

Traders must love their business, but they also must be objective. As an employee, you can go on doing something you dislike just for the sake of the salary that pays the bills. As an entrepreneur trader, you will need to love your trading business. But you mustn't fall into the trap of thinking and acting like an employee in your own company, working *in* rather than *on* the business, being a technician rather than the person who steers it forward. You do not trade for someone else. You are the business.

**Start now.** Most people underestimate the time it takes to make the transition to entrepreneur, so it's sensible to start shifting your mindset while you're still employed, perhaps even setting up your trading business to run alongside your day job. This can give you the opportunity to develop skills and build experience while still enjoying the safety net of a salary, something that at some point you will almost certainly need to give up if you want to grow your trading business.

So, employee or entrepreneur? The choice is yours.

## WHY START TRADING?

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The general perception out there is that trading is difficult and the chance for success is quite low. I know from my interactions with traders that this impression is accurate. Many people fail. With so much at risk, why does anyone bother entering trading in the first place? Knowing why people start trading is important, and I asked the very same question when I started. Let me share with you some real and legitimate reasons that represent the hopes and dreams of members of our trading community, Bear Bull Traders:

Armin, the previously mentioned air traffic controller in Austria, also wrote to me:



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“I am in no rush to become a trader as I still have a job. But I would like to become my own boss, working for 2 hours a day, making \$300 to \$500 or even a bit more per day. That would be my dream. Sometimes I see myself very close to achieving it, sometimes it seems light years away ... The goal of living my dream keeps me motivated, but it's still a long way off to be able to control all of my fears and emotions.”

This story is not uncommon. Matt hates his 9-to-5 job. He wrote:



“I don’t feel I’m a greedy person—if I can just make a decent living from trading and not have to work a 9 to 5, then I am happy. Getting RICH is secondary.”

Mahmoud’s story is more typical of many white-collar workers:



“Like many people, I have always wanted to be freed from American corporate ...”

Tyler, a college student, is excited by the possibility of making some real money in a matter of minutes:



“I should start this by saying that I consider myself to be new to day trading. During my last semester of college, I spent an hour at least of my time daily watching recap videos on YouTube and I was in awe. I could only imagine the rush of earning (or potentially losing) hundreds if not thousands of dollars in mere minutes.”

Here are a few other comments that were shared with me by members of our trading community about why they entered the world of trading:



“

“A quick introduction about myself—my name is Robbie, I live in Australia, and my career is as a full-time commercial pilot flying to the United States. Although I love my job and the lifestyle, the idea of financial freedom, not having to rely solely on my income as an employee, and being my own boss, has always been one of my goals.” (**Robbie—Australia**)

“... and I was absolutely determined to make this work, because if done right, the reward is pretty significant.” (**Sihanook**)

“If you are practicing day trading and working at the same time, it’s exciting to realize that one day, when you are ready, you will be sitting your boss down and letting them know you are retiring, planning an exit strategy and eventually closing one chapter of your life and opening another. This visualization helps to support all of the hard work you have to do to learn the art of day trading. There is a light at the end of the tunnel.” (**Peter**)

“Where will I be if I succeed in the world of trading? How will a career move change my life? How can my success benefit: my family, others around me, the less fortunate, myself?” (**José—Florida**)

José poses some very appropriate questions. Why do you want to trade? What will change in your life if you make it through the learning curve and succeed? Is it for the financial freedom? Is it to be your own boss? Not to have to get up early and battle traffic and go to work every single day, week in and week out, year after year? Is it for the so-called rush? Is it to be able to help those you love? Those less fortunate around you?

I can relate to all of these reasons.

Ryan recommends first delving into the deeper reasons and true purpose for why you want to day trade and then, secondly, writing them down as reminders on those rough days:



“

“Have you ever asked yourself why? It’s a simple question, but not every trader can answer it. Why, exactly, do you want to trade? On the surface, most of our answers seem obvious: more money, more freedom, more time. Notice how these common answers are usually ‘more of ...’ something? Many people are attracted to trading for the wrong reasons, without purpose, and significantly underestimate the learning curve.

In order to survive this learning curve of trading, and come out the other side consistently profitable, we’re going to need to break through such surface level answers and search for the deeper reasons to why we want to trade. Why, specifically, do we want more money? What would we do with it? What, specifically, does more freedom look like to us, and what would we do with it if we had it? What

would we do with the spare time? Would we spend it with family? Take up a new hobby? Give back to our community?

This exercise is intended to help us find the true purpose(s) for why we trade. Once we've identified our true purpose(s), we should write it down. In the coming months and years ahead, when things get tough, the markets are down, nothing seems to be going right, red trades seem more frequent than green, and we feel like throwing in the towel, we'll need to reflect on this list. Understanding our 'why' will keep us grounded in purpose, motivated, and moving forward in times when we need it most."

After reading all of the stories sent to me, I have concluded that the majority of traders in our community are looking for a second career that is more challenging and exciting than their current field of employment. Of course, money is a motivation, but I found that there is another important reason beyond the desire to switch careers. In today's work environment, most jobs are knowledge work, and knowledge workers will not be "finished" after 20 or 30 years on the job. They are looking for something else to do because they are quite simply bored.

Less than 150 years ago, work for most people meant manual labor, and there was no need for them to worry about the second half of their life. They simply kept on doing what they had always done until they were no longer able to do the physical tasks. And if they were lucky enough to survive 20 or 30 years of hard work in the pulp mill or on the railroad or in a mine, they were quite happy to spend the final few years of their life doing as little as possible. Today it's different. The average person lives a much longer life, and so many people are bored, and they are seeking more and more stimulating challenges as they move through their careers and their lives.

I hear a great deal of talk about professionals having a midlife crisis. That is mostly the result of boredom. By the age of 40 or 50, most professionals have likely reached the peak of their careers, and they know it. After 15 or 20 years of doing pretty much the same kind of work, they are very good at their jobs, but they are not learning anything new, they are not facing any new challenges, nor do they feel they are contributing to anything, and they are certainly not deriving any sort of a sense of satisfaction from their job. Yet, at the same time, they are still likely to face another 20 to 25 years of work. The same work. Day in and day out. That is why many middle-aged professionals increasingly think about beginning a second career.

For professionals, there are many ways to develop a second career or to find something new and challenging to do. Some people will move from one kind of organization to another: the controller in a large corporation, for instance, becomes the CFO of a medium-sized franchise. Other people will move into different lines of work altogether: the mid-level manager, for example, who will leave corporate life after 20 years to enroll in law school and become a small-town attorney.

These second careers are undertaken by people who have achieved modest success in their first jobs, have substantial skills, and know how to work. Everyone at every stage of life needs community. In my experience, middle-aged professionals need it most. They will come home from work one day and find their house very quiet because their children have grown up and gone out on their own. While they still of course require an income, more than anything else, they also need a challenge.

Successful private traders are the ones who try to prepare for the second half of their life by developing a parallel trading career. You will recall that not too many pages ago I mentioned that the average private trader in the United States is a 50-year-old, married, college-educated man, who is often a business owner

or a professional. These are thoughtful, computer-literate, book-reading individuals. These are people who have been successful in their first careers and generally stay in the field of work they have been doing, either on a full-time or part-time basis or as a consultant. But in addition, they try to create a parallel trading business. They love their work, but it no longer challenges them.

Overall, the people who deliberately plan for and manage the second half of their lives will always be a minority. The majority will “*retire on the job*” and count the years until their actual retirement. But it is this minority, the people who see a long working life expectancy as an opportunity, who will become profitable private traders.

It is important to note though that there is one prerequisite to becoming a successful trader in the second half of your life. You must begin planning for it long before you actually enter into it. Learning how to trade takes time. Those who want to learn trading, but also have debt and large bills to pay on a regular basis, are those who most likely will fail. You need to have the necessary time and patience and financial resources to wait for your trading to slowly flourish and be profitable (don’t forget about the hockey stick forecast in Figure 1.1). These are the most important elements in planning out your new trading career.

There is another reason why people begin a second career as a trader. Deep down, we all know that we cannot expect to go through life without experiencing at least one serious setback. It may be a subconscious decision, but many of us want to hedge our bets, so to speak. We’re on a subconscious “quest for success”. There will be a competent engineer who gets passed over for promotion at the age of 45 or a college professor who realizes at the age of 42 that she will never get a full professorship at a top university, even though she is fully qualified for it.

There will be tragedies in life: a marriage breakup, or perhaps the loss of a friend or family member. At such times, a second major interest, and not just a hobby, may make all of the difference. The engineer, for example, now knows that he has not been considered very successful in his job. But in his outside activity, as a retail trader, he is a success in the eyes of his peers, family and, most importantly, himself. In a society in which success has become so terribly important, having options becomes increasingly more vital.

Historically, there was no such thing as what we today call “success.” Decades ago, the majority of people were quite content to retire in their 60s or 70s with the same socioeconomic status that they had in their 20s or 30s: a so-called “horizontal mobility”. In today’s competitive society however, we all expect everyone to be a success. We embrace “upward mobility”. Therefore, it is very important for individuals to have a business or a challenging career such as trading, not only to make money, but also to be “somebody.” For many, being a successful trader as a second parallel career means an opportunity for respect, and for being a success. It certainly was for me when I started.

A career in trading results in new and unprecedented challenges. It demands that each trader think and behave like a CEO. Traders have to manage themselves as well as each and every aspect of their business, and that is a major shift for people who are accustomed to working as employees and primarily doing only what they are told to do.

## **NOT AN ORDINARY BUSINESS**

People who are considering trading should understand that they are looking at a clearly unconventional kind of business that operates based on “*probabilities*.” New traders will ask me if the market is random or not. My answer is, “*Yes, of course it is.*

*The stock market is a random environment. Anything can happen at any moment.*" Often, the next question I'm asked is (and it's a reasonable one), "*How can I then make money in such a market?*"

The answer to that reasonable question is that there are some high probability trading patterns that traders can benefit from, but only if they recognize them and then properly execute them. These trading patterns will appear on your charts almost every single day, and your job as a trader is to recognize them. However, finding a pattern is not enough; excellent execution is just as important. In our community, I often find and call out potential trading patterns to our traders, but I myself do not take them. When I am asked why I'm not taking the trade, my response usually is that I could not find a proper risk/reward ratio or that I am done with my trading day. I do not need to trade anymore, and that is an important part of your success: learning when to stop trading.

Your job as a trader is to find "your" trading patterns and then execute good trades that are based on them. This is called your "edge." Sometimes you will recognize an opportunity, but if you decide to trade it with heavy size and lose emotional control, you will eventually also lose some money. Or perhaps you will hesitate a little bit and get a bad entry and then lose money. This means that recognizing trade patterns is important, but their execution is equally important.

The bottom line is that although the market is random, it is possible to make consistent money from it by having your "edge" and developing your TradeBooks (we introduce the concept of TradeBooks in Chapter 5). However, you need to be prepared for the unforeseen. When you enter a trade, there is a possibility that the trade will go against you. That is why you must use stop losses and get out of losing trades. This is the confusing part of the business for many people. They do not know how to accept a loss, but they still believe that making money in the market is possible.

A member of our community, “Trader H,” posted to our forum some comments about this very topic:



“

“I have been watching these videos from trading coach Mark Douglas lately [an aside from Andrew and Mike: you’ll recall we recommended Mark Douglas and his book, ‘Trading in the Zone’ earlier]. He stressed something that hit me: consistent winners take losing trades all of the time. Their drawdowns are a reflection of the normal losses that any trading methodology will incur. Anybody can make money from the market. But how many of them make money every day? For many days in a row? **Normal losses (as Mark Douglas said) are a confirmation of a good, consistent trader.**”

Carlos Moreta, one of our senior traders and trading coaches, agreed with “Trader H’s” conclusion:



“

“This is what I am also trying to work on every day. Accept the loss, and move on to the next opportunity. As new traders, we want every trade to be a winning trade, and it makes us hold on to losers, expecting them to bounce back and turn to winners, and that is where we get burned badly. Worse is when those trades we hold on to actually become winners!

Yes, feels good on the P&L, but the bad habit that it creates will cost us big time in the future.”

Carlos’ comment about holding on to trades struck a chord with “Trader H”:

“

“This holding habit reminded me of the popular saying: “The wolf is coming! The wolf is coming!” And we say, “Naaahh, the wolf never comes. Let me try it again.” When the wolf finally comes, it blows up our entire account. Something that Mark Douglas also said is that when we get in a panic, we can’t react. We need to develop in ourselves the ability to react when we see the trade is not going in our favor.”

And I will add as a closing comment to this exchange what Carlos stressed in his reply: when you see the trade is not going in your favor, you need to accept the loss and stop out immediately. Immediately! I have come to realize, though, that many people enter a trade without knowing what their stop loss is. A good trader, when entering a trade, always has a plan in place on how to get out if the trade does not work in their favor. If you enter a trade, and you do not know where your stop loss is, you are gambling. You are not trading.

It is very important to understand the risk and probability inherently involved in trading. Having that understanding is the key to peaceful and profitable trading. Being a trader is a career based on probability and statistics. If you trade proper risk to

reward trades, in the long term you can make more money than you will lose.

In the business of casinos, almost all of the games have a favorable ratio toward the house, meaning that the casino is more likely to win. This does not mean that gamblers cannot or will not make money. Every day in Las Vegas, millions of dollars are paid out to gamblers, but if enough people are gambling that day, a few more millions of dollars will go to the owners of the casinos. There will be days when a casino will pay out more than they brought in, but at the end of the year the casino will be the winner by a significant percentage. That is why the casino industry needs more and more players. The real money is in the gambling. That is why drinks are free and your food, hotel, and flight to Las Vegas can be so cheap. The more players in the casino, the more favorable the odds are for the casino.

Some professional gamblers recognize that casinos always have the edge in a game, so they try to change the odds in their favor by team-based playing or counting cards. For example, in blackjack, the card counters are spread out around the table and place relatively small bets. When the count becomes mathematically very favorable, they signal the main player and that player hits the casino with a heavy bet. To combat these types of gamblers, casinos employ detective agencies that specialize in finding card counters, dice cheats, and slot machine drillers. Essentially, the casinos don't want skillful players who have discovered how to have an edge over the house.

Interestingly, there are no professional gamblers in games that do not involve skill (like craps or roulette). These are known as minus-sum games because the casino sweeps away between three and six percent of every bet, making the games unwinnable in the long run. Professional gamblers make money at the expense of other gamblers only in games of skill like poker, where weak or suboptimal players provide enough of an opportunity for professionals to overcome the odds.

Similar to roulette or craps, trading is a minus-sum game. Just by entering into the market, you start losing. Your bank charges you a fee for wiring out to fund your trading account. Your broker will charge you an incoming wiring fee for funding the account and will then start charging you a fee for their market data and the use of their platform, as well as a commission on each trade that you make. If you do not make enough monthly commissions for them, they will charge you an inactivity fee. When you make a trade, market makers profit by charging you the bid-ask spread and slippage on your fills. Regulators such as the Financial Industry Regulatory Authority (FINRA) and the U.S. Securities and Exchange Commission (SEC), in addition to the actual exchanges, also live off the markets by charging fees. Financial markets need a continuous fresh supply of losing traders because they bring money into the markets. People think trading is a zero-sum game, but it is not. Trading is a minus-sum game because, as the industry ecosystem drains money from the markets, the winners receive less than what the losers are losing. The market is not a level playing field; it is slanted against you.

When a trader enters the markets, the trading industry slowly drains them with commissions, data fees, inactivity fees, platform fees and other hidden costs. In climbing, there is a term, “Death Zone,” and it is a very accurate comparison to what happens to traders. Even if they are just resting, high altitude climbers will begin to slowly die in the freezing, oxygen-starved atmosphere above 26,000 feet (8,000 meters). That is what’s called the Death Zone.

In trading, being simply better than average is not good enough. You have to be significantly above the crowd to win in such a skillful minus-sum game. If you fail to grasp these concepts, you are on your way to being washed out in the market. If a new trader who is making trades while sitting in their car waiting at the intersection for the light to turn green knew this, they would

never have put themselves at the mercy of such a ruthless environment. You have to take any sort of trading very, very seriously. You're in the Death Zone.

Trading is a nightmare for perfectionists, the people who cannot see losses as a normal part of the business. You'll recall I wrote a little earlier in this book about Armin, a veteran air traffic controller. For 23 years, Armin was trained to control air traffic with such perfection that aircraft did not come even close to each other, let alone collide with each other and cause a disaster. He could not handle any loss, but now, as a trader, he has to accept a loss as a "normal" part of his new career.

Casey is a veteran trader in our community with over 20 years of successful trading experience. When I asked him about the psychological issues that he has faced or has seen others struggle with, he replied:



“

“Andrew,

**Dealing with the fact that every day includes failures is difficult for me.** I am a perfectionist, and trading is murder on perfectionists. Why? Because no setup is perfect and every setup is unique like a snowflake. Yes, patterns repeat, but each time it needs to be assessed with fresh, clear eyes. Not only that, even winning days are full of small mistakes and things that could be improved upon. In many other areas of life perfection is a worthy goal, but not so with trading.”

As we discussed, trading is the game of probability and uncertainty. Therefore, sticking to your stop losses is a key

aspect of successful trading. Carlos Moreta posted to our forum a review of Kathy Lien and Boris Schlossberg's book, *Millionaire Traders: How Everyday People Are Beating Wall Street at Its Own Game*:



“

“I finished the audible on this book about a week ago. I drive a lot so having the option to get through a book is pretty cool. It is a great audible, the narrator does a great job with all of the short stories of the successful traders in the book. The book goes over how many different ways people trade different markets, using different tools, different strategies and different setups. It covers traders all around the world and how they found markets and strategies to trade that fit their personality, as well as the struggles they went through and how they overcame them. There were two messages that were really clear for me in this book.

First, is that no matter what market or type of trading you are doing, there is no skipping the learning curve. It can be really painful as you hear some of the traders who lost all of their savings ... Some took time off and came back to trading a few years later to then be successful. Andrew said it best in his book, ‘You need to survive the learning curve.’ As new traders, that is our number one task.

Second, is how crucial it is to be disciplined when it comes to sticking to your stop loss. Almost every trader, regardless of the market, talked about how they manage their stop loss, and how critical it is to execute it and not

stay in a trade expecting it to change. This is an easy way to blow up your account.

This was a great book, if you are able to do the audible, I highly recommend it. Please add your review of the book if you have read it as well, would like to see what others got out of it.”

Several months later, one of our members, Yuanzhi, did just that. They listened to a recording of the book and then posted the following review:

“

“I just finished the audible book today. It is just amazing. The rank of this book on Amazon is not that high, but in my opinion, this book is even better than ‘Trading in the Zone’ [a book by Mark Douglas].

‘Trading in the Zone’ is written by one successful trader, but this book is written by ten successful traders. And if you pay attention, you will discover that they have so much in common. They are serious about trading and they have passion about trading. They see trading as a great method to have more freedom in their lifestyle and they were willing to take the risks before they became consistently profitable.

The most important messages in this book for me as a new trader are:

4. Trade defensive, which means you should always avoid letting your losing trade take you down. Set

up a stop loss and keep the money in your pocket. With the capital, you can always get back in, but if you lose the capital, you are out of the game.

5. Don't say, 'trade with the money you can lose!' This is very mind-blowing for me although it's just one chapter in the book, and there are people in the book who have the opposite opinion. It did change my mind. Now I believe, 'This is the seed money for our family, not the money you can just lose.' I should pay attention and try my best to keep it and make more out of it.
6. If you have passion in trading, 6 hours a day is okay.
7. The ones who take trading more seriously have more potential to success."

Often, when new traders get stopped out of a trade, they will lose their confidence and start questioning themselves, their education, and their systems. They fail to realize that trading is a game of probability. You have to be patient and wait until it is your turn. This premise is only true, of course, for proven strategies that actually do work. If you just randomly take trades and wonder why you are losing money, the laws of probability won't be of any help to you because your random moves result in you not having a mathematical advantage over the market.

A great example to illustrate the difficulty in grasping the concept of chance and probability is a famous brain teaser and puzzle known as the Monty Hall problem, which is discussed in Jack Schwager's book, *Market Wizards*. In 1963, a television game show called *Let's Make a Deal*, hosted by Monty Hall, premiered. Suppose you're on the show, and you're given the choice of three doors: behind one door is a big prize like a new

car; behind the others, goats. Of course, everyone wants to get the big prize. You have to pick one of the three doors. You pick door number 1, for example, and the host, Monty Hall, opens another door, door number 2, which has a goat. Monty Hall, who was also one of the creators and producers of the game show, knows which door the prize is behind. The way he played the game, he would never open the door with the real prize. Now he turns to you and asks, “Do you want to switch to door number 3?” Do you stay with door number 1 or do you switch? Is it to your advantage to switch your choice?

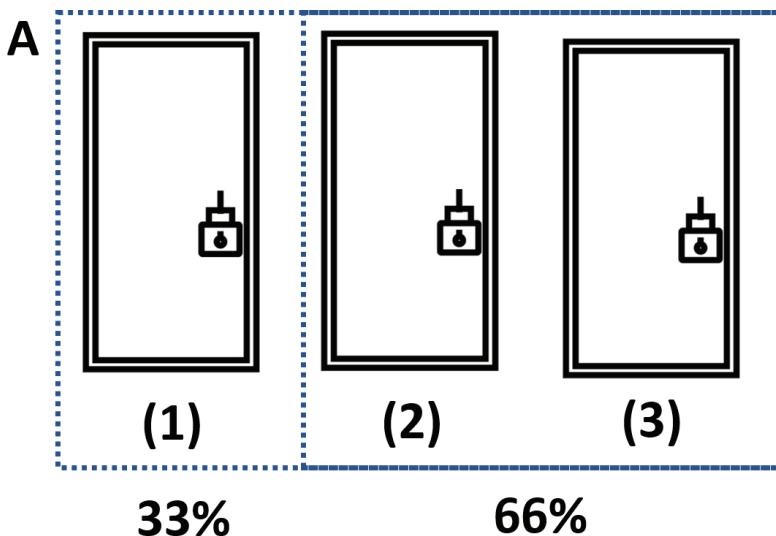
The obvious answer seems to be that it doesn’t make a difference. When you picked door number 1, the chance of winning the big prize was equal to one-third, or 33%. Now you have only two doors, and everyone thinks it must be a 50/50 chance between the doors, and so changing from door number 1 to door number 3 does not make any difference. You have a 50% chance with either door.

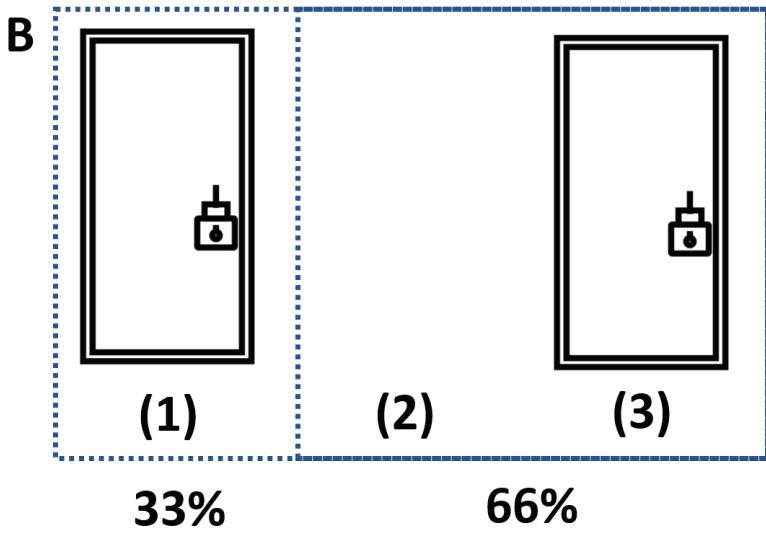
But surprisingly, this is the wrong answer. The correct answer is that you should always switch to door number 3. The probability that the prize was behind the door you originally picked was one-third, or 33%, and that it being behind one of the two doors you did not pick was two-thirds, or 66%. The fact that Monty Hall opens one of those two doors and that there is nothing behind it doesn’t change this original probability of 66%, because he will always open the wrong door. Therefore, if the probability of the prize being behind one of those two doors was 66% originally, the probability of it being behind the unopened of those two doors is still 66%. So, if you stick to your door number 1, you have a 33% chance of getting the big prize, but if you switch from door number 1 to door number 3, you now have a 66% chance of winning the big prize, instead of the 33% chance if you stick with door number 1.

This show was watched by millions of people for years, and yet many did not realize that the odds were so heavily in favor of

switching. What confuses people is that the process is not random. If Monty Hall randomly chose one of the two doors, and the prize was not behind the selected door, then the probabilities between the two remaining doors would indeed be 50/50. Of course, if he randomly selected one of the two doors, then sometimes the prize would be behind the opened door, but that never happened. The key is that he didn't randomly select one of the doors; he always picked the wrong door, and that changed the probabilities. It's a classic example of conditional probability. If the probability of the prize being behind door number 2 or door number 3 is two-thirds, given that it's not door number 2, what is the probability that it's door number 3?

The answer, of course, is still **two-thirds**, or 66%, as shown below in Figure 1.2 (A) and (B).





**Figure 1.2:** The conceptual representation of the Monty Hall problem.

When a player chooses door number 1 (Figure 1.2 (A)), the probability of winning is  $1/3$ , or 33%. When Monty Hall then opens door number 2, the player should switch their choice, because now door number 3 offers a higher chance for winning (of 66%) (Figure 1.2 (B)).

One reason people have trouble understanding the correct solution to this puzzle is that the problem uses only three doors. This makes the assumed, but incorrect, probability of picking the big prize (1 in 2 or 50%) appear too close to the actual probability (1 in 3 or 33%) and the solution difficult to be grasped intuitively. To illustrate this better, suppose the game was played with 100 doors, with goats behind 99 doors and a car behind only one of them. When first offered a door, a player would realize that the chances of picking the car are low (only 1 in 100). If Monty Hall then opened 98 doors and each had a goat behind it, it would be clear that the chance the car is behind the remaining unselected door is high (99 in 100 or 99%). Although only two doors would be left (the one the player picked and the unopened door), it would no longer intuitively appear that the car is equally likely to be behind either door. The costumed

contestant originally had a 1% chance, and now they cannot say door number 1 and expect door number 100 to still have the same probability. To change the pick would be intuitive to most people.

Of course this problem assumes people prefer a car to a goat. However, some might argue that a goat is a delightful animal, although parking it might be a problem in most cities!

The bottom line is that your intuition deceives you. Your simplistic impulse is to say that the probabilities are 50/50 for both door number 1 and door number 3. On careful analysis, however, you realize that there is a huge advantage to switching, even though it was not at all obvious at first. The moral is that in trading it's important to examine the situation from as many angles as possible, because your initial impulses are probably going to be wrong. There is never any money to be made in the obvious conclusions.

This example demonstrates that many people cannot find peace and accept that there will be losses when trading. Instead, they start questioning their strategy, their training, their ability, and their skills, rather than accepting that a loss is a part of the process. They do not realize that a loss in trading is not personal, it's simply to be expected from time to time. It's part of the normal probability and uncertainty associated with the markets. It's the same as the people who did not realize that they had a better chance of winning if they had changed from door number 1 to door number 3. They also did not have a good grasp of the concept of probabilities.

No other business is like this. No surgeon can operate on a patient and then, if the patient dies on the operating table, say, "Oh well, one in four of the people I operate on don't survive that particular procedure." No attorney can represent a client and then, when they lose in court, say, "Oh well, I always lose one in four jury trials." No engineer can design a bridge, knowing in the

back of their mind that one out of every four bridges they design will most likely collapse. Only traders, and of course professional gamblers, are in the business of probability.

Even the most tried-and-true strategies cannot guarantee profit on every single trade, and that is okay. It is important to understand this basic fact of trading in order to avoid disappointment. As reliable and successful as a strategy may be in past performances, and as carefully and skillfully as you implement it each trading day, you cannot count on success with every single trade.

Your focus should be on implementing and executing the strategy itself, rather than the potential outcome of the strategy. In other words, it is the process of the trade that is important, not the end result. If you allow your attention to be distracted from the plan at hand, and if you have second thoughts and then come up with new and creative solutions, you are probably going to be disappointed.

## **EMOTIONAL CONTROL AND DEALING WITH THE UNCERTAINTY IN TRADING**

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Even the most experienced of traders will tell you that it can be very hard to 100% “consistently and all of the time” control your emotions during a trade. That is definitely part of the psychology of trading. To be successful, you must learn to control your emotions.

One of our traders, Crewdog, posted the following on our forum: “**STUPID EMOTIONS!!!!**” (with four exclamation marks, if not more!). It’s a very accurate term to define what can get the best of any of us.

“

“I’m so mad at myself right now. One of my problems recently has been getting out of trades when I see (usually small) profit and not following my plan all of the way to my exit target. And this is what happened today... [see Figure 1.3 below for Crewdog’s 1-minute chart]

I got in at \$33.18 with 500 shares for a 5-ORB [5-minute Opening Range Breakout], and as soon as my order filled, I was down \$50... damn. Didn’t look at the spread. Well, the price dropped a bit toward VWAP [Volume Weighted Average Price], so I decided to add another 500 shares at \$33.04, which brought my average down to \$33.11. The price dropped below VWAP and I started to panic a bit. But it came back up and my unrealized showed \$60 over break-even, so I got out. The combo of the bad spread and the drop freaked me out... even though the 5-minute and even 1-minute chart showed that I was in an awesome spot... So, I told myself, I wasn’t going to look at DBX again for the day.

Well, like I always do, I came back later just to see what happened.... DAMN! WHY?!?!?!? STUPID EMOTIONS!!!! I was in such a good spot and the charts backed me up the entire way! I would have started getting out around \$35.03. A damn \$2 gain, and it’s still climbing....

So, a hard lesson. A lesson that I already knew but find hard to follow when emotions come into play. I can make bigger profits and lower losses.... if I follow my plan and don’t let those stupid emotions get in the way. **One way to help with this, that I found, is to remove**

**the unrealized for each trade.** To only follow the charts, Level 2, and other signals. Not seeing \$\$\$ helps keep emotions in check. Sadly, I'm on a work trip and on my laptop using an old layout instead of my desktop where I don't show it. Should have removed it first... oh well. I'll take my \$200 and run for the day. Too emotional for anything else."

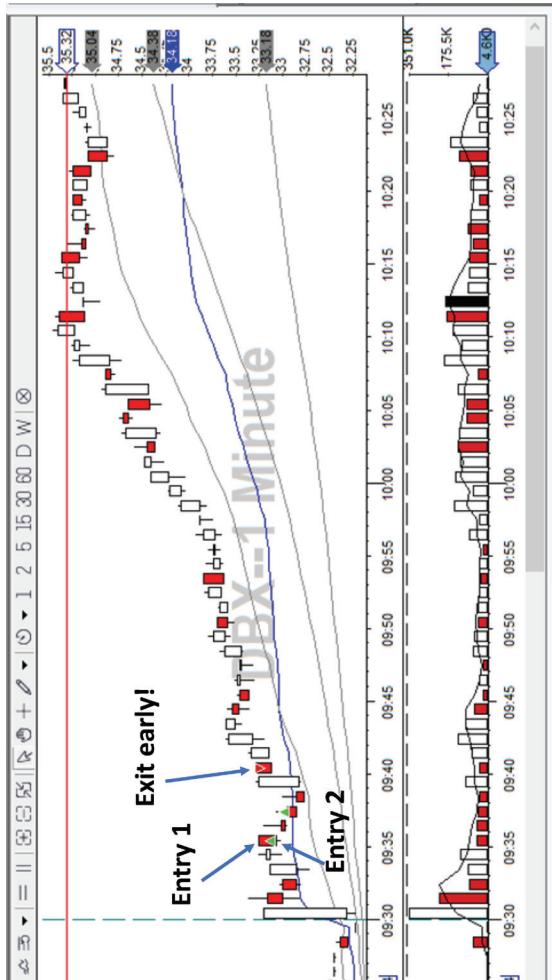


Figure 1.3: Crewlog's emotional trade management on Dropbox Inc. (\$DBX).

One of our experienced traders and longtime members, Aiman, had a look at Crewdog's charts and then posted in reply:

“

“It could've been worse if we think about it, imagine if it kept going down and down after your averaging down the stock? You could've got with much more loss, but it went higher, which was unlikely then, I mean especially after it broke the VWAP [Volume Weighted Average Price], I would have done the same thing you did by the way. I mean, going long, then averaging, then it breaks the VWAP, which is usually a stop loss, luckily the stock bounced back! Time to get out before it drops again! You did well going out I think:) However, looking at the five-minute candle made it pretty clear that it's bullish. I face the same problem with realized and unrealized amount, and my scaling depends on the number written there, I'll try to disable it tomorrow and see how it goes. Thanks for your post.”

I've quoted from Armin earlier in this book. He is an air traffic controller who cannot mentally accept being stopped out from a losing trade because, due to his professional training, failure is not an option for him. I think some of his comments are worth repeating:



“

“I have been working as an air traffic controller for 23 years and so I am programmed that mistakes can cost lives. Even if I provide not enough separation between the aircraft, there will be an investigation, interviews, filing reports. That is to be avoided at any cost. So I have really big problems to accept failure. Failure is not an option for me.

Every time I get stopped out, I am sad that I failed again. I am angry with myself and I try to find the next trade, but I am still thinking about the missed opportunity. I have to learn to accept failure.”

There is no magic secret to success in trading. It is impossible for any individual trader or group of traders to be successful every single day, and yet that is what some naïve and inexperienced traders seem to assume. And when they do have a series of losses over several days, they become discouraged and panic, and all of the careful planning they have put into their strategies is tossed aside.

In trading, you accept a loss, without questioning your strategy. You make another trade, and you accept another loss, and in the third trade, when it works in your favor, you make sufficient money to cover your previous losses, if you use a risk to reward higher than 1:3 in your strategy.

That is why traders need to define positive expectancy.

Positive expectancy refers to how much money, on average, we can expect to make for every dollar we risk on a given strategy. For finding the positive expectancy of your strategy, for example

5-minute Opening Range Breakouts, you should collect a sufficient sample of trades under similar conditions. You perhaps will need 30 trades (or more) to prove that your strategy profits over the long run. For calculating positive expectancy, it is very important to be selective and not to include random trades which do not fit in your TradeBooks, even if they are profitable. Those ones will give you a false hope or expectancy and could easily cloud your judgment in terms of your expectations for a given strategy. You may end up selecting or fine-tuning a strategy that you should instead be abandoning.

Samir shared the importance of evaluating strategies based on positive expectancy instead of P&L (profit and loss):



“

“An invaluable skill I have learned from Andrew is how to find the few stocks during any given day that are most likely to behave in a non-random fashion and thus provide tradable opportunities by way of chart patterns. Limiting my involvement in the market, as an inviolable rule, to just these stocks during morning hours has helped to cut out many bad trades.

Second, is the application of basic statistics to evaluate my own performance and the performance of strategies in general. I used to be glued to my profit/loss value when I should have been using the statistic of expected value [“EV”] to evaluate my performance (i.e.,  $EV = (\% \text{ Winners} \times \text{Average Win}) - (\% \text{ Losers} \times \text{Average Loss})$ ).

The reason for this is that it is impossible to diagnose and remediate bad trading behavior when a trader is only

aware of their profit/loss. Even a profitable trader may not be able to articulate how they are successful if they are only aware of their profit/loss and may not know what to target in order to correct for periods of bad trading.

The expected value ratio gives you a lot more information to work with as its value is relatively independent of your account size. I now concentrate on keeping a positive expected value for a period of time before I begin risking more money when employing a particular strategy or a new idea.

The profit/loss value is also insidious in another way. At least for me, it has an incredible ability to pull at my heart strings and it is one of the most significant influences leading me to make irrational decisions. The ideal I am shooting for now is to test my merits as a trader based upon how well I follow my trading plan as opposed to my profit/loss value. This requires that, for each strategy, I develop a trading plan which takes into account all potential outcomes of a trade and stipulates the actions I will take for each situation prior to ever entering a trade. This is to safeguard against improvised decision-making, as I know quite well that if I were to leave any trade management decisions up to myself in the midst of an ongoing trade, my profit/loss value will lead me to make an irrational, emotion-based decision. If my past experience is any indicator, those decisions tend to be exactly the wrong decision for the trade.”

Trust in your system and your strategy is an important element of success. If you know me or follow me in social media, you will know that I am an avid climber and mountaineer. I often take my friends and family who have never climbed

before to the mountains and try to teach them. I am always fascinated by their learning at the beginning. They are afraid, holding desperately to the rope or rock or whatever else might be nearby. I always tell them, I have you “on belay”, meaning that if you fall, I will catch you with my rope. They are still afraid, until they slowly trust me, my belay system, and the rope. Once they can trust the system, they slowly begin to enjoy climbing. As a climber, I need to trust my belay and other equipment, otherwise it is virtually impossible to summit the mountain.

As traders, we too need to trust the system. Trust in the uncertain career of trading is hard. Peter wrote:



“

### “Trust

Along with confidence, I’ve found it’s also important to develop trust. You need to trust in your ability to spot opportunities and take them. Once again, defining manageable risk enables you to trust in your trades. Lacking trust can mean that you fail to act on opportunities you find in the market. This can lead to missing out on the great trades as well as bad ones.

### **It’s okay to be uncomfortable**

I’ve personally experienced a lot of discomfort on my journey to trading successfully. I’ve realized that I personally have always been uncomfortable taking a loss. And sometimes this means I avoided trades that turn out to be great ones. Now I’m developing a healthy approach to taking a loss. I also started to realize that

it's okay to feel uncomfortable whilst taking a trade, so long as I have an edge and am trading according to my principles of good trading.

### **Uncertainty**

A trader has to operate within the realm of uncertainty. For some people this may be more difficult than others. I'm not somebody who is comfortable with a lot of uncertainty so this has been difficult for me to work on. Initially it led me to feel that I wanted to control the market. I'd over-analyze and I'd follow many trading 'gurus' online. I soon realized that many of the gurus as well as technical charting indicators do not have the answer and are often inaccurate or just plain wrong. Now I practice operating in uncertainty without the need for controlling anything but my entries, sizing and exits. I find I'm improving at this all the time."

## **TRADING VS. POKER**

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As mentioned earlier, some novices view trading as a form of gambling. Although this misconception is far from accurate, the two activities do share a number of interesting similarities. Here is a comparison of trading with one of the most popular forms of gambling – the game of poker.

- Both are activities with many opportunities to play each day. This means that participants in both poker and trading are exposed on a daily basis to numerous patterns, numerous learning opportunities, and numerous possibilities for success or failure. This is both good and bad. It is good because it provides an amazing and flexible opportunity to profit. It is bad because in trading it exposes you to over-trading, and in poker it drains your chips on bad hands.

- Both combine sheer chance with discernment and judgment. They are both games of speculation. In both poker and trading, you need to speculate who has power, either buyers or sellers or other players in the game. And then you should only bet when you have a certain level of confidence in your judgment.
- Both require the ability to manage money and the knowledge of when to take advantage of the opportunities that present themselves. Both also require the practice of self-restraint so that a participant does not overtrade or overbid without a well-thought-out rationale. Both poker and trading are games of self-discipline and self-destruction. You as a trader or player choose which one to be.
- Participants in both are aware that most of their proceeds will come from a fairly small percentage of their trades or card hands and that a large percentage of their trades or card hands will be unsuccessful.
- Participants in both must recognize that there are times to fold or not trade. Successful gamblers do not bet if the odds are not in their favor. Successful traders do not trade if the market does not provide sufficient volume and volatility. Both need to be able to know when they should play or trade and how aggressively they should pursue their actions.
- Participants in both need to understand and respect their competition. Poker players will use different strategies at a small table compared to a large one. They act differently when they're playing with casual amateur players than when they are in a tournament of professionals. Similarly, traders need to know who else is involved in the market at any particular time, and to have some understanding of the other traders' levels of competence as well as the strategies they are using.

In poker, you need to learn the three Ps. You need to be aware of your **POSITION** at the table (early, middle or late) when deciding which hands to play. You only want to play **PREMIUM** hands from these positions and you need **PATIENCE** to wait for these hands.

Similarly, in trading you need to find your place in the market (**POSITION**) and define yourself and your capabilities. You need to trade only on high quality setups that you know you have a positive expectancy and edge in (**PREMIUM**). The higher the quality, the higher position or risk you may take. And most importantly, you need to wait for these high quality setups (**PATIENCE**).

## **80/20 RULES**

It has been estimated that approximately 90% of all profits in trades are the result of just 20% of all trades. Although some novice traders naïvely expect that the majority of their trades will be profitable, the fact is that a very large percentage of trades actually lose money. Positive P&Ls are generally the result of only a few big wins and many small losses. A good trader is a good loser.

Because almost all of their trades are not going to be profitable, it is to the advantage of traders to realize that a trade is not promising well before it reaches the stage of the P/L sheet. This should, of course, happen when there are clear early indications that a trade is not moving in the direction that the trader wants, rather than after the trade has been completed.

It should also be kept in mind that because only one-tenth of their trades will account for pretty much all of their profits, traders must be able to take full advantage of the potential presented by good setups. This means not only knowing when to step out of the situation, but also knowing how to trade sufficient size in

order to get as much return as possible from good trades. Effective traders know when and how to do this. Less capable traders go for maximum size when their trading is especially poor, including situations where they have made some bad trades and are desperately trying to recover their money before the markets close for the day. Good traders can recognize promising trading opportunities, often after patiently waiting for them to appear, and then they choose a size that will maximize their profit advantage. In that way, effective traders can make ten good trades compensate for ninety bad ones.

## **SOURCES OF FUNDS FOR A TRADING BUSINESS**

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There is an old Wall Street proverb: “*Scared money never wins.*” The reason is quite simple. If you are risking money you can’t afford to lose, all of the emotional pitfalls of trading will be magnified.

The source of the funds that are being used for trading can have a major impact on the way a person trades. If they have only a limited amount of money and start to see it dwindle, they are likely to panic and be tempted to make trades that they would not otherwise make.

This can be especially true if they are using money that they depend on from day to day and from week to week to put food on the table and pay the bills at the end of the month. A trader needs to have a realistic overall budget that includes household and family expenses of all kinds. The part of the budget that funds trading should not in any way be drawing on those routine but necessary personal expenses. It should, however, include such expenses as a broker, a platform, scanners, and all of the other required tools of trading.

Fernando is a trader in our community who trades with a small account in the most difficult group of stocks—the low

float stocks. His email to me emphasized the need to “de-glorify” the role of money when trading mindfully:



“

“Andrew

Day trading is probably one the hardest things that I've done in my life, for the sole reason that it is not an ‘exact science.’ You can learn all of the technical, patterns, nomenclatures and so on, but there is one thing that you have to tame like a beast, you need to be able to contain it and control it, and that is your emotions. Being able to have a peaceful mindset when trading is key to mastering trading psychology.

When I started day trading I was so addicted to it that I would finish an online course or a book in a matter of days, I sucked every ounce of information that I could and by doing that I thought I was ready to trade and I was wrong. You can be the most knowledgeable person at the trading desk but if you don't know when to hit the buy and sell you are going to be a miserable trader.

I had a good start when I went live for the first time, I was consistently making profits (small of course, I trade with a small account). But when I had a red day, that would shake my confidence, and it would shake it a lot. I would give back all of my profits trying to make that red day green even though it was clear that that setup or that trading day was just not good. I blew up my account by forcing trades that I wouldn't normally, and by wishfully thinking that my position would go back into the green just to make my money back. But why? I guess experience only

comes with time and you will eventually learn to not ‘revenge trade’ or chase something. I finally started trading better after I understood a few things about trading psychology and MONEY VALUE.

Day trading is a risky business and you will pay for your mistakes, literally. You should consider starting to trade when you understand the function of money and for me that is one of the biggest keys to understanding one part of day trading psychology.

Money in day trading is obviously a big factor, we all trade to make money, although you should see ‘money’ as a tool to day trade and not as a ‘beloved relative’ of yours. You should have absolutely no attachment to that money or any ‘need’ for it, or emotions will start playing a big role in your trading, as day traders we need to be emotionless towards money. When starting, be mindful of how much is comfortable for you to invest in this new journey, how much money is ‘ok’ to risk in order to learn a new skill and make sure that you have absolutely no attachment to that cash. I see a lot of new traders, including myself, putting everything they have into it after studying technical for one month, watching 20 YouTube videos and trading in a simulator for a week (if that). When they get to a live account, they are so scared to lose that money because, first, they are not ready, but more importantly, they are putting all of their hopes (and savings) into that endeavor; emotional decisions take over rationale like a rapid fire.

Money is a tool in the trading world just as a stock scanner, a trading station or a platform is. You need to have cash in your account to trade and you should see it as another tool in order to run an account live. Don’t go around selling your furniture, taking your savings out or

quitting your job to trade, remember, the money that you use in your trading account should have ‘zero financial value’ to you. You should have absolutely no attachment to it and it should not affect your normal life/routine. By eliminating as many variables as possible, you will be able to control your emotions better and you will be able to make decisions based on your knowledge and rational thinking that you learned prior to going live. You should gauge how well you are trading based on your trades, if it was a good or bad entry, if the setup was correct, not by how much you made in a day, and the profit will come naturally. Also, have realistic goals and take it slow in the beginning, it’s easier to add up to a good position than to scale out of a red trade.

Money value for me is one of the biggest enemies of trading emotions, it was really hard for me to understand that and just let it go of any attachment I had to it. There are many other variables that can play a big role in that spectrum of emotions in trading, it is up to you to identify them and be honest with yourself about it. Does the P&L showing at the top of the screen distract you? Are your positions so big that you are about to have a heart attack during a trade? Be honest, be persistent and work hard and the almighty trading experience will come little by little and you will finally be able to trade in the right mindset every day.”

Making money should of course be your long-term goal, but if you need money today to pay your bills, trading really is the worst possible career for you. That is why I am a major advocate of part-time trading as an additional income source, but not as one’s main source of income. If at all possible, consider trading as a side business, and let your skills slowly grow and develop.

## **PSYCHOLOGY BEHIND YOUR BUSINESS PLAN**

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Like any other business, you need to have a solid business plan for your trading including what strategies you will use and how much you will invest in your education, a computer and screens, scanner software, platforms, and other tools. New traders should ask themselves several basic questions before entering the world of trading. It's surprising how many people go into trading without giving much thought to these fundamentals.

1. Are you willing to start a business? Trading is a business.
2. Are you comfortable with going into a business where you encounter failure every single day?
3. What is your expectation from trading? Why are you really starting trading? Is it for the money or for the sense of achievement?
4. Can you afford to lose the money you have saved and set aside for trading?

Once you have set up a brokerage account, set aside the funds, and begin taking trades, you are in competition with people and companies that have much more experience, much more skill, much more training, and much more money than you do. That is why it is so important that you have a carefully thought-out business plan that includes clear and measurable goals.

It is utter foolishness to go into trading thinking that it is easy or believing that you can outsmart the markets. You will be competing with some of the sharpest, most capable and successful professional traders in the world. A business plan is definitely a necessity.

One of our longtime members and an amazing trader and contributor in the community, Kyle, put considerable effort into developing a sample trading plan that others could use as they

embark on their trading careers. Whether or not you follow a plan such as this, I hope it will give you much food for thought. He posted to our forum some very good questions that new traders or hopeful “traders-to-be” should be asking themselves:



“

“What follows is an example of a trading plan that I created many months ago from various sources, as well as my own thoughts. I've developed many business plans in a similar fashion and the way I get the most done is by typing up a list of questions, printing it out, and writing (or typing) thorough answers to those questions. You then wait a few days (reset your mind) and return, putting those answers into concise statements / paragraphs to form the basis of your overall business plan.

For a trading plan, you may never do the second part (putting it into concise paragraphs), and that's OK. The intended purpose of a plan (for business or trading) is to make you think and develop a vision for what you feel is success and how you intend to go about reaching your goal. Just like a business plan, you may deviate from it, you may go slower than you projected, and / or you may alter it along the way. It doesn't matter how you use it after you create it, it's just there to put you back on the tracks if you come off, or serve as a reminder of the longer term goal if you're having a short-term struggle.

#### Some Tips:

- I encourage you to really reflect on your answers, get granular with them, the more you get out of your head

now is the more you'll be able to power through in the end. In my last major business plan, I wrote risk-aversion scenarios for coups d'état (it was for the Middle East) and an assortment of what-if's related to the region—you won't need that here (although, maybe you have terrible in-laws and it's not out of the question), but it helps to think complex (possible) scenarios through as you'll be more prepared to react if it happens.

- Set realistic goals. I took a few psychology courses on goal setting at university for my degree and they all seem to agree. Break the goal up into small obtainable steps and build momentum. So, don't say, 'I want to be a billionaire in 5 years.' Reframe it as, 'In 5 years, I'd like to have my house paid off entirely, and I'm going to do it by...' A goal too far out of reach or without structure is useless, even if there's a slim chance.

The sample trading plan is comprised of a series of questions, broken into sections:

- **Introduction -->** Just a brief overview of what's intended.

The idea of this plan is to ask questions that when answered can be used to form an overall guideline for your evolution as a day trader. Just as a business plan can be used to realign a business strategy, it's not meant to be a 'set in stone' exercise, but rather a tool to help you record your thoughts and create an overall outlook. The end result is that your choice to be a day trader and how you plan to be successful at it will be fully thought out.

Although you can certainly just answer the questions and call it the plan, I find it best to treat it like you'd treat a business plan and use the answers as an outline to a more

detailed and thorough write-up. This further reflection can help fill gaps in your plan's scope as it gets it all out of your head and onto paper, allowing you to be more effective at the execution of it.

- **Overall Goals & Strategy -->** Questions regarding your intended trading goals and strategy.

This section asks questions regarding what you want out of your day trading career, it helps define what will come after.

1. When will you start?
2. Why do you want to become a day trader? What is your driving force?
3. What will you do differently that puts you in the 10% of day traders that succeed?
4. How will you support yourself financially while using the simulator?
5. How much capital do you expect to start with when you go live?
6. What broker do you plan on using?
7. What simulator do you plan on using?
8. What are your long-term (e.g., this is where you want to be at in X months) daily, weekly, and annual profit targets?
9. What will your pre-market open routine be?
10. What will you be trading?
11. What time of day will you be trading?
12. What strategies will you use?
13. What is your overall entry and exit strategy for each trade?

14. How do you plan to find stocks in play?
15. What tools will you need to begin? To go live?
16. How will you handle going LIVE from the simulator?
17. Do you have any personal rules that you will abide by to keep you in check? If so, list them here.
18. What will the repercussions for breaking them be?

- **Education/Evolution -->** Questions about how you're going to gain knowledge and evolve to meet your goals.

This section helps you define your knowledge-building strategy. How will you improve so that you can be successful?

1. How do you plan to further your knowledge and improve?
  2. What other types of things can you do to improve as a day trader?
  3. Will you track your trades? How?
  4. How do you plan to measure performance? What will happen if you don't reach a performance goal?
  5. What metric will you use to know when to go live?
  6. What metric will you use to know when to go back to the simulator? For how long?
- **Psychology -->** Questions for how you plan to deal with the psychological aspects of trading.
1. Do you have a goalkeeper? A goalkeeper is another person that agrees to help you if you struggle, and / or keep you on your path of success towards achieving your goals.

2. How do you plan to handle a day with a large loss?
  3. How do you plan to handle a series of losses?
  4. How do you plan to handle a day with a huge gain?
- **Timeline -->** Your intended timeline of milestones. How you plan to progress through it.

This section helps lay out the timeline for your evolution as a trader. Each segment of time should lay out your strategy, risk management, and daily profit targets. The milestone should include a clear completion goal that you must hit before going on to the next milestone. The month listed (e.g., 'Month 1') is the minimum time required, but could take 2 months to complete.

#### **Milestone—Month 1:**

1. What is your overall goal for this segment?
2. Will this be LIVE, in the simulator, or a combination?
3. What will your capital be?
4. What is the daily profit target?
5. What will you do if you hit your daily profit target?
6. What is the daily maximum loss?
7. What will you do if you hit your daily maximum loss?
8. What is the acceptable risk per trade?
9. What is the milestone goal at the end that will signal you to move on to the next milestone marker?
10. What will you do if you don't reach that milestone?

**Milestone—Month 2:**

1. What is your overall goal for this segment?
2. Will this be LIVE, in the simulator, or a combination?
3. What will your capital be?
4. What is the daily profit target?
5. What will you do if you hit your daily profit target?
6. What is the daily maximum loss?
7. What will you do if you hit your daily maximum loss?
8. What is the acceptable risk per trade?
9. What is the milestone goal at the end that will signal you to move on to the next milestone marker?
10. What will you do if you don't reach that milestone?

**Milestone—Month 3:**

1. What is your overall goal for this segment?
2. Will this be LIVE, in the simulator, or a combination?
3. What will your capital be?
4. What is the daily profit target?
5. What will you do if you hit your daily profit target?
6. What is the daily maximum loss?
7. What will you do if you hit your daily maximum loss?
8. What is the acceptable risk per trade?

9. What is the milestone goal at the end that will signal you to move on to the next milestone marker?
10. What will you do if you don't reach that milestone?

**Milestone—Months 4 thru 6:**

1. What is your overall goal for this segment?
2. Will this be LIVE, in the simulator, or a combination?
3. What will your capital be?
4. What is the daily profit target?
5. What will you do if you hit your daily profit target?
6. What is the daily maximum loss?
7. What will you do if you hit your daily maximum loss?
8. What is the acceptable risk per trade?
9. What is the milestone goal at the end that will signal you to move on to the next milestone marker?
10. What will you do if you don't reach that milestone?

**Milestone—Months 7 thru 12:**

1. What is your overall goal for this segment?
2. Will this be LIVE, in the simulator, or a combination?
3. What will your capital be?
4. What is the daily profit target?
5. What will you do if you hit your daily profit target?
6. What is the daily maximum loss?

7. What will you do if you hit your daily maximum loss?
  8. What is the acceptable risk per trade?
  9. What is the milestone goal at the end that will signal you to move on to the next milestone marker?
  10. What will you do if you don't reach that milestone?
- **Future You Statements -->** Pre-journey Statement (message to yourself to be read after you've completed the journey, written in the future-sense, like you're 24 months in the future and talking back to your present self).

Example: So, you've made it. We completed our goal and got back to our timeline. Sure, we broke up a few families on the way and altered the course of history all because of the incident in the mall parking lot. It took some time, we had some tribulations, but we eventually righted the ship.

Just remember, past me, don't let Biff get the Sports Almanac. Your mom's future depends on it! Also, when they recast your girlfriend in the sequel, just consider it an upgrade. Future me, out.

- **Time Statements -->** Done at certain intervals, a quick journal of your progress so far.

Return to this document and input a statement about progress, what you've done good, what hasn't worked, mistakes you've made and how you intend to correct them. Basically, your overall feelings toward the endeavor. Should be done at months 2, 4, 6, 9, 12, 18, and 24, or however you want to break it down.

Month 2: Statement for post month 2 (you'd type this in month 3).

Month 4: Statement for post month 4.

Month 6: Statement for post month 6.

Month 9: Statement for post month 9.

Month 12: Statement for post month 12.

Month 18: Statement for post month 18.

Month 24: Statement for post month 24.

- **After Completion Statements -->** Area for you to reflect after this leg of the journey is over and you're about to start the next.

This section is an area for you to return and journal a little bit about your journey. It's a reflection place for you to review what you've planned out and how well everything went to plan. It should be used to lay out the next phase of your journey now that you've (hopefully) built a decent foundation to build upon.

Your journey has just begun. Good luck.”

What you just read was an impressive work by a solid trader who I personally look up to. While many trading gurus are busy promoting themselves, a humble trader who genuinely wants to help others become better traders put considerable time, with no compensation, into developing a useful trading tool. Without any accompanying drums or slick advertising, Kyle quietly posted online a top-notch quality plan for members of our community to review. I am very impressed with all of the work that was put into creating this plan. I realize this may not be every trader's plan, but I do believe it is a good starting point.

If you carefully read through and reflect upon the structure of the plan Kyle has developed and the questions he poses, it will serve you well as you embark upon your journey in trading. If you are ever in our community, you are welcome to say “hello” to Kyle. His chat name is KyleK29.

A few days before going live, Mike posted to our forum his approach to a trading plan:



“

“Hello Everyone,

I wanted to start a post for anyone planning to go live in November, or who has recently gone live in the past 30 days. I feel that sharing our trading experiences with others who are in the same place in their trading journey can be extremely helpful.

After reading Andrew’s books and listening to the classes and lifetime webinars, I believe stating your goals, risk controls, and allowing yourself to be held accountable is vital to getting through the learning curve without completely blowing up your account.

So, in an effort to hold myself accountable, below is my plan for the 1st month along with the goals and risk controls to help me get through it.

- **Live Date** – November 5, 2018—I can’t trade November 1 or 2
- **Share Size** – 100
- **Daily Goal** – \$20 (1/5 of my planned daily goal once I make it through the learning curve)
- **Daily Maximum Loss** – \$60 (\$20 per trade)

## Goals for Month 1

1. Do not blow up my account
2. Have a 2:1 ratio at the end of the month with average winning trade versus average losing trade
3. Have above a 60% average win rate
4. Daily goal is a metric to measure profit-taking plan efficiency, not an amount to hit every day

## Risk Controls in Place for Month 1

1. Maximum loss: 100
2. Maximum shares traded in a day: 800

## Trading Methodology for Share Size Increase/Decrease

1. Increase share size by 50 shares every time I trade 5 consecutive days green
2. Decrease share size by 50 shares every time I trade 3 consecutive days red
3. After 3 consecutive days red, return to the simulator until 3 consecutive days green
4. If maximum loss is hit for any reason other than internet connectivity issues, return to the simulator for the remainder of the month
5. If maximum shares reached, return to the simulator for the remainder of the week

Looking forward to beginning the journey of live trading and tackling the infamous learning curve with some other traders. It would be great to see who else is going live and develop a support group. Thank you!"

Mike is now a trading coach at Bear Bull Traders, Chief Training Officer at Peak Capital Trading, and the co-author of this book.



## CHAPTER 2

# THE POWER OF RESILIENCE

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re·sil·ience

/rə'zilyəns/

*noun*

1. the capacity to recover quickly from difficulties; toughness. “the often remarkable resilience of so many British institutions”
2. the ability of a substance or object to spring back into shape; elasticity. “nylon is excellent in wearability and resilience”

—Oxford Dictionary

## **WHAT IS RESILIENCE?**

We all have seen people around us who cannot get their life back on track following a death in their family, the loss of a job, or the end of a marriage or other romantic relationship. Why is it that only some people are able to rise from the ashes like the phoenix and start afresh? What is it about the characteristics of their personality that set them apart from others? How is it that when Dave Mustaine was fired from Metallica, he took all of his anger and ambition and started Megadeth, an amazing band that was just as good as his former band, but when Pete Best was asked to leave his legendary band, the Beatles,

he fell into a deep depression and alcoholism and could never get his career back to superstar status?

The answer to these questions is *resilience*, which is in part a measure of one's mental toughness.

Resilience is one of those mysteries of the human psyche that I have had a fascination with for many years. Resilience is neither ethically good nor bad. It is merely the skill and the capacity to be robust under conditions of enormous stress and change.

This is my story. I first began day trading after I got unexpectedly laid off from my job. Unemployed, feeling embarrassed in front of my partner and friends, I proceeded to lose all of my savings and severance package to the market. I did not give up, even though I lost over \$10,000 in the first few months. I was forced to find another job to be able to pay the rent and my bills. But I did not stop trading. I kept waking up at 5 a.m. in order to be able to trade from 6:30 to 8 a.m. before leaving for work. I was lucky that I lived on the West Coast, in the Pacific Time Zone, where the market opens at 6:30 a.m., instead of 9:30 a.m. for those living on the East Coast. I could trade and still be at work by 9 a.m. It was not easy but I managed to handle it. Did I know what was driving me at the time? Not really. Resilience is something you realize you have *after* the fact. In this chapter, I would like to share with you what I have learned about building mental toughness and how I have trained my mind to remain resilient.

## **RESILIENCE MAKES A DIFFERENCE**

*“You may have to fight a battle more than once to win it.”*  
- Margaret Thatcher

From time to time I am asked, “How is it that some traders will succeed yet many others will fail, despite having the same

education and tools?” Why is that? Have you given this some thought yourself? Why do very few new traders make it, and what leads many others to bend under the pressures of trading and ultimately fail? Do those who succeed possess some skills or qualities that the others do not?

These types of questions first crossed my mind in my early days of trading, and they have continued to fascinate me as I have become more and more involved in the world of trading education. The answer, in my opinion, is “resilience”. My trading career has taught me much about resilience, although it’s a subject we may never fully understand. Resilience is one of the greatest psychological mysteries of human nature, similar to creativity or the spiritual instinct. To uncover the exact answer, I believe we need to look more deeply into the human psyche.

Why do some people experience real hardship but not lose their strength? That’s one of those questions to which we would all like to know the answer. Probably almost every reader of this book has either faced a significant hardship or knows someone who has. Perhaps there’s a family member or friend who cannot seem to get their confidence back after a layoff. Maybe it’s someone who is struggling with depression and has ended up taking a few years off from life after their divorce.

People react very differently to challenges in life. In 1983, a talented young guitarist, Dave Mustaine, was kicked out of his band in the worst possible way. The band had just been signed to a deal to record their first album. But a couple of days before recording was to begin, without any warning, discussion, or dramatic blowout, the band asked Mustaine to leave. They put him on a bus the same day. As he headed back home to Los Angeles from New York, he kept asking himself how this could have happened. What did he do wrong? What would he do now? By the time the bus hit L.A., Mustaine had recovered from this bad experience and all of the feelings of self-pity. He vowed to himself that he would start a new band, and he decided that this

new band would be so successful that his old band would regret their decision forever.

He worked hard, he spent months recruiting the best musicians he could find, he wrote dozens of songs, and he practiced religiously. The combination of anger and ambition led him to eventually form the legendary heavy metal band Megadeth, which sold more than 38 million albums and toured the world many times over. Today, Dave Mustaine is considered one of the most brilliant and influential musicians in the history of heavy metal music. The band he was fired from was Metallica, one of the best-selling music bands ever. Although Mustaine never reached the same success as the members of Metallica, he did put his life back on track. This is resilience at work.

Now let's look at the life of another musician who got kicked out of another band. His story echoes that of Dave Mustaine, but ended differently. In 1960, an English rock band formed in Liverpool. Its members had peculiar haircuts and a very odd name: The Beatles. John Lennon (the lead singer and songwriter), Paul McCartney (the boyish-faced romantic bass player), George Harrison (the rebellious lead guitar player), and Pete Best founded the band. Pete Best was the best-looking member of the band—the one who girls went wild for, and it was actually his face that began to appear in the magazines first. He was also the most professional member of the group. He didn't do drugs, and he had a steady girlfriend. He was “too conventional to be a Beatle,” according to the autobiographical book of their manager, Brian Epstein.

In 1962, after receiving their first record contract, the other three members quietly got together and asked Epstein to let Pete Best go. No reason, no explanation, no condolences; they just wished him the best of luck. As the replacement, the band brought in Ringo Starr. Within six months of Best's firing, the intense fan frenzy of Beatlemania erupted, making John, Paul,

George, and Ringo four of the most famous faces on the entire planet. The Beatles became the best-selling band in history, even to this date, with estimated sales of over 800 million physical and digital albums worldwide. Meanwhile, Pete Best fell into a deep depression and alcoholism. The rest of the Sixties were not kind to Pete Best. By 1965, he had sued two of the Beatles for slander and, in 1968, he attempted suicide, only to be talked out of it by his mother. Pete Best didn't have the same redemptive story Dave Mustaine did and, if you ask me, it's mostly because of his lack of resilience.

This is my story. I first began day trading after I got unexpectedly laid off from my job. Unemployed, feeling embarrassed in front of my partner and friends, I proceeded to lose all of my savings and severance package to the market. I did not give up, even though I lost over \$10,000 in the first few months. I was forced to find another job to be able to pay the rent and my bills. But I did not stop trading. I switched to trading in a simulator and kept waking up at 5:00 a.m. in order to be able to trade from 6:30 to 8:00 a.m. before leaving for work. I was lucky that I lived on the West Coast, in the Pacific Time Zone, where the market opens at 6:30 a.m., instead of 9:30 a.m. for those living on the East Coast. I could trade and still be at work by 9:00 a.m. It was not easy, but I managed to handle it. Did I know what was driving me at the time? Not really. Resilience is something you realize you have *after* the fact.

Not too many years back I watched a movie on Netflix, *The Founder*, about the life of the legendary Ray Kroc, the middle-aged and below-average milkshake equipment salesperson who began to build the McDonald's empire at the age of 52. In the last scene of the movie, he is practicing the speech he is soon to give in front of the Governor of Illinois. Standing before a mirror while getting dressed, he says:



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“Now, I know what you’re thinkin’. How the heck does a 52-year-old, over-the-hill milkshake machine salesman... build a fast food empire with 16,000 restaurants, in 50 states, in 5 foreign countries... with an annual revenue of in the neighborhood of \$700,000,000.00...”

One word... persistence.

Nothing in this world can take the place of good old persistence. Talent won’t. Nothing’s more common than unsuccessful men with talent. Genius won’t. Unrecognized genius is practically a cliché. Education won’t. Why the world is full of educated fools. Persistence and determination alone are all powerful.”

It is true. More than education, more than experience, more than training, a person’s level of resilience will determine who succeeds and who fails. That’s true in the cancer ward, it’s true in the Olympics and Paralympics, and it’s true in the world of trading.

## **RESILIENCE IS MORE THAN GENETICS**

Many academics and resilience researchers believe in the role of genetics. Some people are just born persistent. There’s some truth to that, of course, but there is also much evidence showing that resilience can be learned. Resilience can be systematically taught and implemented by not just individuals, but also by communities and organizations through business continuity planning.

The famous investment bank, Morgan Stanley, was the largest tenant in the World Trade Center on September 11, 2001, with over 2,700 employees working in the South Tower between the 43rd and the 74th floors. On that horrible day, the first plane hit the North Tower at 8:46 a.m., and Morgan Stanley started evacuating just one minute later, at 8:47 a.m. When the second plane crashed into the South Tower 16 minutes after that at 9:03 a.m., Morgan Stanley's offices were largely empty. All told, Morgan Stanley lost only seven employees despite receiving an almost direct hit.

Of course, there is no doubt that the company was lucky to be located in the second tower. The other companies such as Cantor Fitzgerald, whose offices were hit in the first attack, couldn't have done anything to save their employees. Still, truth be told, it wasn't just luck. It was Morgan Stanley's resilience that enabled them to benefit from that luck. Soon after the 1993 World Trade Center bombing by Ramzi Yousef and his co-conspirators, Morgan Stanley's senior executives had recognized that working in such a symbolic center of the U.S. financial industry could make the company vulnerable to possible terrorist attacks. Thus, they launched a serious program of preparedness for their employees. Few companies, and even fewer employees, take their fire drills seriously. Perhaps on September 10 many of Morgan Stanley's employees saw the training as redundant and a waste of time, but on September 12, the program seemed as though it had been inspired by a genius. It was genius indeed, but it was also undoubtedly resilience that was at work for the organization.

Similarly, while Lehman Brothers occupied three floors of the World Trade Center and their global headquarters in Three World Financial Center was severely damaged and rendered unusable by falling debris on that horrible day, the bank recovered quickly and rebuilt its presence in less than 48 hours. They moved across the Hudson River to New Jersey, where an impromptu trading floor was built in a hotel and, less than 48 hours after the

attacks, they were ready to trade and benefit from the volatility of the financial market. This is resilience in practice. When the stock markets reopened on September 17, 2001, Lehman's sales and trading capabilities were completely restored.

If an organization can be trained to withstand changes in its environment, adapt to a new way of working, and still successfully function, the human mind is also capable of learning resilience.

I received recently an amazing email about resilience from Peter, a gentleman who got his life back on track after a series of very serious events. I asked Peter if he would allow me to share his story in this book, and he kindly emailed a short version of his story:

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“Good morning Andrew,

Here is a short version of my story. I visited my sister that was studying mechanical engineering in California and fell in love with the lifestyle over there.

I decided to stay. I got caught up with the wrong crowd and ended up with a 7 year prison sentence out there. On my release day, May 11<sup>th</sup>, 2009, I was sent back to Montreal [Canada] and had an opportunity to start over again. I worked at my mother's coffee shop and was able to save up a little money.

I opened a retail store which then became a national franchise of over 30 stores nationwide along with a manufacturing facility from where we supplied almost every country in the world with our products. I started with \$16,000 and before I sold in May of 2020, we were generating over \$6 million a year in sales....

I am now 46 years old, married with 3 beautiful children and trading full time and loving life.

God bless.

Peter J. J."

This is resilience in life. God bless you Peter for your inspiring courage in getting your life back on track.

## **HOW TO BECOME MORE RESILIENT**

### **ACCEPTING REALITY**

Traders who start their careers with the hope or expectation that they have found the perfect get-rich-quick scheme usually do not make it. I am always skeptical of training and educational materials that promise a quick and easy result for traders. And that's not because I think their systems do not work or that the educators are not knowledgeable. It's because I believe their premise is wrong. When someone signs up for a course or trading boot camp that guarantees fast results, whether it is through a legitimate and trustworthy source or not, the individual is destined to fail because they won't be ready to face the harsh reality of the trading learning curve.

Admiral James Stockdale was held prisoner and tortured by the Việt Cộng for over seven years. When asked, "Who didn't make it out of the camps?" he responded, "Oh, that's easy. It was the optimists. They were the ones who said we were going to be out by Christmas. And then they said we'd be out by Easter and then out by Fourth of July and out by Thanksgiving, and then it was Christmas again. You know, I think they all died of broken hearts."

Resilient traders have very sober and down-to-earth views of the markets. They're survivors. They won't, for example, stay in a losing trade with the "hope" that the trade will be coming back. That is a good example of what I would call "dangerous optimism." Of course, I am not saying optimism doesn't have its place, but for a significant challenge like learning how to trade in the stock markets, a cool, almost pessimistic sense of reality is far more important. Research has shown that most people slip into denial as a coping mechanism. Facing the reality of trading, really facing it, is extremely tiring and demanding work and, indeed, can be unpleasant and often emotionally wrenching.

The fact is, when people truly stare down reality, they prepare themselves to act in ways that allow them to endure and survive extraordinary hardship. This is also true for successful traders. They're resilient. They can and will train themselves in how to survive before the need arises.

I have found that successful traders possess three characteristics: (1) they accept reality; (2) they have a deep belief that life is meaningful; and (3) they are endowed with a mysterious ability to improvise. Many people bounce back from hardship in life with just one or two of these qualities, but a successful trader will only be truly resilient and succeed in trading and life with all three.

Resilient traders face reality with staunchness, make meaning out of hardship instead of crying out in despair, and they improvise solutions from thin air. Others do not. This is the nature of resilience, and like many other abstract concepts such as religious faith and creativity, we will never completely understand it.

## **LEARNING FROM MISTAKES**

Most of us, when under the stress of a bad trade, have at least once thrown our hands up and asked (or is it cried), “*How can this be happening to me?*” Many traders see themselves as victims, and bad losses and the hardship that results carry no lessons for them. But successful traders, resilient traders, devise constructs about their suffering in order to create some form of meaning and lesson for themselves.

Every time I get stopped out, instead of asking, “*Why me?*” I ask, “*What happened?*” In most situations it may be a cliché to say that we should learn and create meaning from our failures, but in trading it really does make a difference. Successful traders embrace failure and carefully examine the details of their losses in order to build better trading skills for the future. On the other hand, some traders do not learn anything new from their losses. They just simply lose their money. Don’t be one of them. If you do lose money, try to learn something from it. As Dr. Brett Steenbarger once wrote:



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“Your losing trades and losing periods are your trials by fire that build resilience and confidence.”

One of our members, Sara, posted a very important question to our forum:



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“Aside from journaling and recording my trades, what is the best way to spend my time if I want to improve my trading game? I am trying to get better at this, but I really want to get the most out of the limited time I have, so your advice is appreciated.”

Norm, one of our key trading coaches, responded:



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“I can add one thing that I’ve learned a TON from: bad trades, specifically reviewing them. Not journaling, or even rereading a journal, but just taking a screenshot of the chart on a bad trade. Go back and look at it several hours later, or the next morning, or that weekend. I promise you’ll look at it and say, ‘*What the hell was I thinking?* *What did I see there?*’ It is really eye-opening.

Screen time, practice, and education will make you capable of finding good trades; learning to avoid the bad trades will make you profitable.

It is correct that I don’t recap my bad trades and rarely share them for public consumption. I try to show the things that work and reinforce that. I’ll be the first to admit I’m green (new) in this game and no guru or wizard. I have plenty of rough days. This is a journey and I’m

much closer to the beginning than the end, just trying to enjoy the process and become a little bit better of a trader each day!

Doing recaps is part of my education process as well and knowing they will be seen by the public makes my live trading more disciplined because of that...nobody wants to look like a fool."

When teachers and trading mentors such as myself say that the early losses at the beginning of your trading business can be regarded as the tuition you must pay for your future trading career, we really mean it. It's the same as in the course of studies for a university degree. Although every student will have paid an extremely expensive tuition, only a handful will graduate *magna cum laude*, and there will be some others who won't have learned much of anything.

Likewise, the commissions and fees you pay when learning to trade are also part of that so-called tuition. One of our traders, Bierzar, posted a question to our forum about the issue of commissions and fees when trading with a small account:

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"I have a question about commissions and trading with a small account. Let me share an example:

I trade with a \$5,000 account and my daily target is set at 1% which equals \$50. I am trading small size to lower my risk and my trading goes well. I take two trades that day and both are green.

Doing as I have learned, I take profit off the board—let's say three times per trade. So now I am sitting at eight tickets if I am correct. Paying commissions and ECN [Electronic Communication Network] fees, I might actually be red at the end of the day, although I think my execution was fine.

I am wondering what proper management looks like in this case. Do I aim to take profit just once, before getting out, to lower my overall tickets? Do I take more shares to compensate for commissions? Do I hold positions longer and hope for a higher target as planned?

Since I am still at my very first touches, there might be a fault in my reasoning.”

Carlos Moreta, one of our coaches, responded:

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“This scenario you are describing is a big challenge for many traders trading small accounts. This is my advice and opinion to this situation.

For me, the most important thing is that the trading process and execution stays intact. If you are trading well and taking profits as you should, and your gross P&L is green, that's a win. You should not change your trading style or execution to try and save on commissions as that can have a negative impact on your trading.

You start taking bigger share size to make up for commissions. You are risking more and that can have a negative

impact on your account's bottom line when trades go against you. Wait until you are more confident and consistently profitable to start increasing size. Let the progress of your trading determine when you increase your size, not the fact that you want to save on commissions.

Change the way you think about commissions. Think of commissions as a fee you pay monthly to be able to learn how to day trade and gain experience in a live account, not as a fee that is taking away from your profit and great trading. Focus on your gross P&L instead of your net P&L, this is very important with small accounts. As you grow your account, the commissions stay the same but your P&L starts to cover commissions.

Continue to trade your plan and keep the same execution process that is working, you want to build great habits from now that will be beneficial as your account grows. For example, if you let winners run longer while thinking about covering commissions, you can get in a situation where the stock might pull back on you due to not following your plan. You do not want to think about commissions while trading, as it can change your judgment about the trade, possibly creating bad decisions. There are some options that will help complement your trading style for small accounts without changing your entire trading technique. If you are scaling out, continue to do so, but maybe this time you take 30% off, instead of 25%, and scale out less.

As you get better in your trading and the account grows, these issues with commissions will not be a thought at all. Focus on the process and the P&L will follow.”

Bierzar then responded:

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“Hi Carlos, thanks for taking your time and sharing your advice and opinion. Thinking about commissions as a monthly fee to learn how to day trade seems very reasonable. In the simulator, it is rather simple not to care about commissions at all, but I can imagine that many people become very frustrated going live and change their trading style because of it. Hopefully, me and other traders with the same question will remember that when we go live.”

Looking for meaning in every aspect of the trading process will make you a more resilient trader. Early losses, or even trading on a small account where all of your profits are being eaten up by commissions and fees, can provide you with an important lesson: they teach you to be a better trader.

*“Meaning Therapy”* is a humanistic therapy technique first expounded upon by Viktor Frankl, the Austrian neurologist, psychiatrist, and Holocaust survivor. Prior to the Second World War, he was responsible for the “suicide pavilion” at the Steinhof Psychiatric Hospital in Vienna. There, he treated more than 3,000 women who had suicidal tendencies. When the Nazis took over Austria in 1938, he in many respects became what I would call a “prisoner with liberties.” Nevertheless, in 1944, in the final months of the War, Frankl and his family were transported to the Auschwitz concentration camp, where his mother and brother died. His wife, Tilly, was moved to another Nazi concentration camp, Bergen-Belsen, where she too would die, and Frankl

himself was moved on to Dachau. Such staggering suffering and experiences led him to discover the importance of finding meaning in all forms of existence, even the most brutal ones, and thus, a reason to continue living. He realized that to survive, he had to find some purpose. Frankl did so by in part imagining himself giving a lecture after the war on the psychology of the concentration camp, to help outsiders understand what he had been through.

Although he had no way of knowing he would survive, Frankl created concrete goals for himself. In doing so, he succeeded in rising above the sufferings of the moment. In his book, *Man's Search for Meaning*, he wrote: "*We must never forget that we may also find meaning in life even when confronted with a hopeless situation, when facing a fate that cannot be changed.*" Frankl survived the Second World War and became one of the key figures in existential therapy and a prominent source of inspiration for humanistic psychologists.

One of my trading students, Daniel, while still a new trader, started to develop an educational course on YouTube, but only for himself. Although he experienced some bad losses in his early trading days, he persevered in teaching to his imaginary students on YouTube. Danny had no followers, and no meaningful number of views on his YouTube recaps, but he was very determined to stay organized and to learn from his mistakes. Although obviously in very, very different situations, just as Frankl survived by giving lectures on existential therapy and analysis of concentration camps to imaginary audiences, Danny survived by teaching about his trading losses to imaginary students. I followed Danny's YouTube channel for a while and can affirm that his videos were a brilliant display of how a trader can put resilience into practice.

Prominent American social psychologist James W. Pennebaker suggests that finding a way to express stressful events is

instrumental in putting those events into perspective and moving beyond them. There are a number of ways to do this. The most common method is to maintain a journal. There are also much more creative ways to accomplish this, such as what Danny did, which was to voice the stress out loud on YouTube. Pennebaker's early work found that keeping secrets can make people sick, and this led to his discovery that people can improve their physical and mental health by writing about their deepest secrets, a practice now widely known as expressive writing. Most recently, he has become intrigued by how people reveal themselves in their everyday spoken and written language.

When you suffer a horrific trading day, give it voice in your journal, in your YouTube recap, or in some other manner. In order to gain valuable trading skills, talk through the lessons learned in your mind and embrace the pain you are experiencing. If you stay in touch with your emotions and embrace how badly your trading makes you feel, you are less likely to repeat those trading errors.

To learn from your mistakes is important. But what if you can also learn from other people's mistakes? Have you ever wondered what some of the most common trading errors people make are and how you can learn from them?

One day, a member of our trading community, Josh, posted a very useful comment to our forum:



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“I typically learn much more from mistakes than I do from success. Anyone else? To me, the worst blunder one can make, besides the initial fault, is to not learn from it.

However, a huge accomplishment is if you can learn from others' mistakes and never have to make them on your own. I believe such a thing is precisely why this community exists: to help each other learn. I searched for this before starting a new topic, but didn't find a simple list of common/egregious mistakes, so let's do this."

And we did go on to do this! Several members of our community took the opportunity to post what their most frequent mistakes are. Since he himself had made the initial request, Josh also bravely posted the first contribution:



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“I’m guilty and make the mistake of getting ‘attached’ to a stock. I’ve had to work on personal biases to certain tickers (both good or bad) leading me down the wrong path versus what the chart is saying and/or other factors like news. So, now what I do is literally tell myself before most trades, ‘This stock isn’t your friend or enemy. Just trade it.’ ”

Robert then shared:

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“My biggest mistakes include, but are not limited to:

- Revenge trading. Repeatedly trading the same choppy stock over and over as if it personally owes me money.
- Overtrading. Thinking I can recover from losses by taking low quality setups in rapid succession.
- Not stopping at my daily goal or 11:30 AM. Slowly giving back all of my gains.
- Not stopping out. Freezing like a deer in the headlights and letting a small loss grow into a big one.
- Not taking a break after a bad trade. Continuing to trade when my psychology is in tatters.
- Thinking I need to be in every move. Forcing bad trades rather than waiting for the chart to provide confirmation.
- Averaging down. Increasing share size when losing. Trying to double down and recoup losses.

After seeing how consistent my trading can be when not doing the above, I've realized that trading is 90% psychology. When I'm able to be disciplined and controlled, the money comes easily. When I regress and repeat bad habits, losses can quickly spiral out of hand.”

Dima posted:

“

“My favorite mistakes (favorite because I make them so often):

- Taking too many shares in hopes of a bigger profit.  
When I do this, to avoid going over my maximum risk on any single trade, I inevitably set my stop loss too close to my entry, which means that I'm much more likely to get stopped out before the stock truly moves against me.
- Not being comfortable with the possibility of losing money on a trade. When this happens, I either stop out too early (taking a small loss only to see the stock go against me, having never hit my target) or take profit too quickly at the first sign of resistance.  
Stocks rarely just go through the roof and not recognizing that pull backs are inevitable, even for stocks going in my direction, is a great way to cultivate FOMO [fear of missing out].
- Not stopping once I have a decent profit on the day.  
I've come to believe that your profit target should be set to be some multiple of your maximum risk on any one trade. If I decide that my maximum risk [R] on one trade is \$100, my profit target for the day should be something reasonable like \$150 or \$200. Once I make \$100, I find that my fear of losing those profits often results in placing tighter stops, which makes it more likely that I slowly give back my profits to market choppiness. After recognizing this,

I've started switching to the simulator once I hit > 1 R. While it's below my profit target, I'm happier to slowly grow my account every day than ruin my day with the regret of having given my earnings back to Wall Street.

- Jumping the gun around VWAP [Volume Weighted Average Price]. When stocks get near VWAP, they're truly like a tennis ball that clips the top of the net. Instead of gambling and guessing which way it'll go, I've discovered that it's best to accept that you might get a worse entry, and simply wait for a sign of the VWAP being lost in one direction or another before entering a trade. Otherwise, you'll find yourself chopped out."

Robbie posted:

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“My mistakes at the moment are:

- Not looking at every piece of information that is available to me before placing a trade (Level 2, volume, etc.).
- Taking profit too early, which equates to a less than 2:1 profit ratio.
- Not positioning my stops at a technical or reasonable level. Rather, just saying, ‘Oh, I want the stock to move 30 cents and I'll take profit, so I'll make my stop loss 15 cents.’ And speaking of stop loss, also

not using a technical or resistance/support level as my profit target—sometimes just taking profit at a random number.”

Josh confirmed in a response that he also struggles with this last mistake:



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“Robbie, I am very guilty at times of that last one. Picking random profit target levels that I want rather than having a plan.”

Stuart added:



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“Thanks to Josh for starting this useful thread! I am still taking and re-taking Andrew’s classes, and I’m looking forward to the new material he spoke about in chat today.

So far in one week of simulator trading I have:

- Made dumb impulsive trades with no plan.
- Made good trades but with bad position sizing.
- Used the scroll wheel to zoom in on a chart, only I had the share size montage active and accidentally

increased my share size to 6,000 and didn't notice until I hit buy!! (Now I bet that's a new one. Lol.)

- Chased stocks; averaged up; and averaged down.
- Waited too late in the trading day to close my position and it was left unfilled. (I got a notice from the system before I shut it down that I might be in margin call!)

I can see how this takes some time before going live with any amount of real money! Thanks again!"

Trader "Dread" posted:



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"I was consistently making my daily [profit target] 4 out of 5 days a week until I made a huge mistake and pre-traded for a \$1,000 loss in the simulator. After that, I lost between \$50 and \$275 each day until today. I took a break and went for a motorcycle ride with my group to the Dragon and it hit me what my issue was. I just couldn't see it while I was trading.

Since that loss, I've been subconsciously wanting to make it up. So, I analyze my first trade, and it's profitable for \$100—\$200. But I set my daily for \$350—\$500. When I was making money consistently, I would make a trade, then stop, then re-analyze and tell myself that if I didn't see a great opening, I would not trade anymore for the day. But, after the blunder, I would just try and catch the same stock on the flip. As in if I bought and made money, I would immediately short.

Today, I added that to my cue card and now, when I make my first trade, I force myself to get up and get more coffee. I made 4 trades for \$476, with one being a loss of \$40.

From this day forward, if it's not juicy, I am not taking a bite, even if it means not trading."

Trader Wpicotte posted:

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"I repeated mistakes today I'm sure others have mentioned, and that chat room regulars will recognize as all too common. At the risk of being repetitive, I need to vent (on myself)..."

**Mistake #1** — After making a good, early trade on LOW [Lowe's Companies, Inc.] (within 10-minutes of open) that put me above my daily goal, I continued to trade.

**Mistake #2 (also, trade #2)** — I followed Andrew into a trade that he called out. I was watching the stock out of the corner of my eye and when he said 'long', which is what I'd been thinking, I jumped in as though I was playing a video game. It didn't work out, I lost a little money, and I continued to trade. Because I managed the loss OK, I don't characterize the trades I continued to make as revenge trading -- I didn't trade this particular stock again -- but it was greed. Also, just want to add that I have a habit of muting Andrew for this very reason -- but recently have taken to simply turning the feed down a bit. I think it's a good exercise to hear him mention stocks, or even talk

through successful trades, while staying focused on my own trading. Didn't work so well in this example.

**Mistake #3** — A bit later in the morning session I got back into LOW. I did so with too large of a share size for my risk tolerance. The price went against me, but believing I was right about the trade, I hung in too far past my stop and lost all daily profits and then some. And (you know what comes next) I continued to trade, this time sticking with LOW because I just KNEW it was a short. Never took a break. Never walked away for a breather. Just kept at choppy, piece-of-garbage LOW.

In the end, I lost 4% of my account value. This comes after several consecutive green days with one or two red days during which, by staying focused, disciplined and dispassionate, I effectively managed the losses. This pattern of consistent, steady gains only to take a day of disproportionate losses is a persistent issue with my trading. It is really, really hard to admit that you're wrong. It is really, really hard to 'give up' and to turn DAS off while in the red for the day.

It is really, really easy to allow days like this to get away from you (me). I'm sure that like others in the chat, I'm a competitive person and, first and foremost, I compete with myself. I have come to believe that while this may be a useful characteristic in many areas of life, it's extremely dangerous to trading and for myself, one I must learn to 'put away' while actively trading.

As a relevant aside, I struggled today to narrow down the watchlist. In recent weeks, I took a page from Brian's book and began watching fewer stocks. I redesigned my desktop to support this approach and have since had enough success to believe that for where I am on the

day trading learning curve, focusing on fewer stocks is a good move. But then comes a day with a big Gappers list of different stripes (low float, mid float, NYSE, Nasdaq, etc.), and I lack criteria for this situation. I suppose experience is the key ingredient here.”

Mike shared:

“

“I have seen most all of my mistakes in this forum. The one I haven’t seen, that I seem to like to do (because I have done it often), is to project my hopes onto a trend [what we call *wishful thinking*].

What I mean is, I ‘see’ an upcoming reversal when it is not in the candles. Or I see a continuation of a trend that, with more careful analysis, is not indicated. Of course, what I am really seeing is my hope in the form of phantom charts that don’t exist. Instead, I need to trade what’s on the chart using likely probabilities, and leave prediction and hope to the soothsayers.”

A trader should be aware that learning how to trade will invite some suffering at the beginning, but this is part of the learning process. As you launch your career in trading, you will encounter what will seem at the time to be very significant challenges. In my experience, the question novice traders should be asking is not, “*How do I stop the suffering?*” but “*Why am I suffering—for what purpose?*” As discussed in Chapter 1, there are many valid reasons that people have for wanting to trade on

the stock market, and those reasons should be strong and powerful enough to allow you to push through the learning curve and tolerate whatever pain you might experience. If you lose sight of the reasons you chose to enter the world of trading, you will not be able to stand the pain inherent in the learning curve.

## **IMPROVISATION**

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I earlier mentioned in this chapter that successful and resilient traders possess three characteristics. One is that they accept reality. Another is that they have a deep belief that life is meaningful. They learn from their mistakes and find meaning in their drawdowns. The third element of their resilience is *bricolage or improvisation*: resilient people have the ability to improvise and construct or create with whatever is at hand, even by making use of previously unrelated knowledge or ideas. Basically, resilient people are *inventive*. They make the most of what they have, often putting familiar objects to unfamiliar uses.

In the concentration camps of decades past, for example, resilient inmates knew to pocket pieces of string or wire whenever they found them. And why would they do that? Because the string or wire might later become useful in order to fix a pair of shoes or other clothing item, which in freezing conditions could easily make the difference between life and death.

You've probably heard of the saying, "*Expect the unexpected.*" Trading is a business full of the unexpected, and you as a trader must be ready for whatever curveball is thrown your way.

Be prepared for trading challenges, even if you have not yet experienced any, for you may be assured that they will come. Once during an interview before a boxing match, heavyweight champion Mike Tyson quipped, "*Everyone has a plan until they get punched in the mouth.*" Try to plan ahead for a bad loss or a horrible trading day. Make sure you are prepared for any possible glitch that might arise. For instance, have a rehearsed Plan

B in case of a trading platform breakdown or a power loss. Having thought in advance about how to respond to these types of situations helps to ensure your mind is clearer and helps you to be prepared for when disaster strikes. My own trading station has many redundancies. I have several PCs and laptops plus my broker's mobile app nearby with saved or memorized passwords. I also have multiple online connections available including Ethernet, Wi-Fi, and wireless data through my cellphone carrier.

Resilience is the personality feature that I see in common among all of the successful traders in our community. More than trading courses, more than experience and time spent in simulated trading, more than training and mentorship, the level of resilience found in a new trader will determine whether they succeed or fail.

## **FINDING YOUR PURPOSE**

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In his contribution for this book, Ryan, a member of our trading community, wrote in detail about the learning curve inherent in trading, as well as the emotional distress and harshness that accompanies the learning process. Here are the opening paragraphs of Ryan's submission:



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“There’s a unique aspect to the learning curve of trading. Simply put, newcomers are overwhelmed with information and uncertainty about the paths and approach to learning how to trade well. Much like ascending a mountain, the journey up this learning curve can be steep, bumpy, winding and dangerous if not followed carefully.

It's safer if you have a guide, a plan, and a compass. The compass for navigating the learning curve of trading can be broken down into 5 unique parts:

1. Finding your purpose
2. Establishing your own Learning Roadmap
3. Measuring and monitoring the right things
4. Ruthlessly attacking your weaknesses
5. Learning to love the game, not your score

Have you ever asked yourself why? It's a simple question, but not every trader can answer it. Why, exactly, do you want to trade? On the surface, most of our answers seem obvious: more money, more freedom, more time. Notice how these common answers are usually 'more of ...' something? Many people are attracted to trading for the wrong reasons, without purpose, and significantly underestimate the learning curve.

In order to survive this learning curve of trading, and come out the other side consistently profitable, we're going to need to break through such surface level answers and search for the deeper reasons to why we want to trade. Why, specifically, do we want more money? What would we do with it? What, specifically, does more freedom look like to us, and what would we do with it if we had it? What would we do with the spare time? Would we spend it with family? Take up a new hobby? Give back to our community?

This exercise is intended to help us find the true purpose(s) for why we trade. Once we've identified our true purpose(s), we should write it down. In the coming months and years ahead, when things get tough, the markets are down, nothing seems to be going right, red

trades seem more frequent than green, and we feel like throwing in the towel, we'll need to reflect on this list. Understanding our 'why' will keep us grounded in purpose, motivated, and moving forward in times when we need it most."

## **LEARNED AND UNLEARNED HELPLESSNESS**

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In order to become more resilient, it helps to recognize some of the characteristics and traits found in those who are not. Experts have resolved that one of the most important "symptoms" so to speak of those who do not possess resilience (or mental toughness) is *learned helplessness*.

In psychology, helplessness is a disorder that is based on the belief that there is nothing that can be done to improve a bad situation. Back in the 1960s, the American psychologist, Martin Seligman, was the pioneer of research on this psychological disorder.

As part of his experiments, he would ring a bell and then give a light shock to a dog. After a number of times, the dog responded to the shock even before it happened: as soon as the dog heard the bell, it reacted as though it had already been shocked. This was called classical conditioning. However, he learned something fascinating in a different round of experiments. He placed dogs in a specialized type of container with a fence in the middle that they could jump over in order to get away from a shock being administered to them. His expectation was that the dogs would jump over the fence in an attempt to avoid the shock. Instead, the dogs who had been unable to stop the shock in the earlier experimentation merely laid down. It was as though they had learned from the earlier experiment

that there was nothing they could do to avoid the shocks, so they gave up in the later experiment. Professor Seligman described their condition as learned helplessness, or not trying to get out of a negative situation because the past has taught you that you are helpless.

On the other hand, those dogs which had not experienced the earlier classical conditioning exercise (being exposed to a shock without any way to stop it or run away from it), quickly jumped over the fence to escape the shock. This told Seligman that the dogs which had lain down and acted helpless had learned their helplessness from the earlier part of his experiment.

A similar experiment was also conducted and successfully repeated on humans. Once a person failed to avert one unpleasant condition, they were not able to avoid or resist other negative situations. Whether human or animal, the condition of learned helplessness remained. For example, in practical terms, once a person tries to lose weight and fails, their next attempt is much more difficult as they now have a learned helplessness with regard to their situation.

Like most beliefs or habits, helplessness is learned, but it can also be unlearned. The first step, however, is to be aware of it. While severe helplessness can be a serious anxiety disorder and require professional help from a psychologist or other professional, most of our modern day-to-day feelings of helplessness surrounding the events of life can be controlled by our own mind.

I have found mindfulness and meditation to be a powerful tool to first recognize my feelings of helplessness and to then avoid them. To me, mindfulness is similar to training muscles in the gym. Based on my experiences, there are several ways to eschew a condition of helplessness and instead build a resilient mind. One of the important ways I myself unlearn helplessness is to remind myself of my previous achievements and successes.

For instance, in my office I have a picture of myself climbing. It serves to remind me on those days when I am eating too much and exercising too little, that I once practiced good habits and was in good shape, that I can again practice good habits and be in good shape, and that I want to practice good habits and be in good shape (because I love climbing!). Mindfulness is one of the most important ways for traders to unlearn their helplessness.

Also hanging on the wall of my office is a good-sized picture of two empty circles, one of which is smaller than the other. The big circle represents what I know I have no control over, and the small circle represents the elements I myself can change or control. Whenever a situation results in my feeling helpless, I pause and meditate in front of that picture. Is there anything I can do in my small circle to change the situation? If yes, I will do it. If not, then I look at the larger circle and acknowledge that the world is much bigger than me and that I cannot change the particular situation. With that acknowledgement, I find acceptance, and that gives me hope, and I can then proceed to start over.

## **MASTERMIND AND GROUP SUPPORT**

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Mental resilience is extremely important in high-performing fields such as professional sports and financial market trading. Both of these professions involve many repetitive and recurring actions that no one can possibly perform at their best each and every time. A trade will fail more often than it will succeed, yet a trader needs to retain a positive mindset and be mentally strong. Over the course of a year, an athlete practices almost every day and will attend many competitions, but they cannot expect to be the winner all of the time. Traders and athletes (and many other people) must learn how to stay mentally fit.

I have come to realize that in order to build a resilient personality, it is crucial to be part of a supportive community. Why? One reason is that when you fall, and everyone does fall,

there are people to look up to and receive energy and support from. It is no surprise that many successful businesspeople, entrepreneurs and professional athletes are part of official or unofficial mastermind groups. That is why I founded Bear Bull Traders. We are a worldwide community of serious traders who share a passion for trading but, most importantly, we are also committed to helping each other. We occasionally are on the opposite side of each other's trades, essentially in direct competition with each other, but during the hard times, the desire to genuinely help one another has outshone any sense of competition that might exist within the community.

In one of my interviews with Dr. Brett Steenbarger, the world-renowned author and trading psychologist, he shared an interesting example regarding the importance of a mastermind group. He noted that to become an Olympic swimmer, you can either practice in your backyard pool or you can join a swimming club with other competing swimmers. Which one gives you a better chance for success? Being around like-minded people, even if they are your competitors, can help you grow. Together we go further, but alone we may go only faster.

A mastermind group, in addition to family and good friends, are critical resources during times of setback. Virtually everyone is guaranteed to experience one or more significant losses during their life. Those who have a supportive network around them are those who are more apt to rise from the ashes like the phoenix, again and again.

## **HEALTHY BODY, RESILIENT MIND**

Staying active and healthy enables me to keep a balanced mind. Whenever I turned to alcohol or another substance to relieve stress, my spirit ended up feeling even more pending doom. After a bad trading day, a run under the sun or under the ocean's breeze in Vancouver (Canada) lets me clear my mind and get back on track faster.

## **RECOVERING FROM A BAD LOSS**

With all of that said, how exactly should you go about recovering from a bad loss? How do you rise from the ashes and stand tall again? For me, going out for a long run or tackling a major climb does the trick. For you, of course, it will probably be something different. But, for all of us traders, I know that being in touch with our community and support group will be of considerable benefit.

Let's read the story of a new trader who had a bad loss right at the beginning of his trading career. Fernando lost \$1,000 on his second day of trading live. Ouch! These types of losses early in one's career are really hard to take (they're hard later in your career too!). I appreciate the honesty he shared in his post to our forum:



“

“On my second live trading day I lost \$1,000. I just had to say it. I feel dirty, miserable, sad, annoyed, angry at everyone and everything, with me, with the market, but with me most of all. I overtraded, I did not respect stop loss, tried to revenge trade to make my first (small loss) back. I messed up.

I was ok with my size but I kept adding to my commissions, kept adding more and more small losing trades. I did not stop trading, I was angry.

What will I do now?

**STOP** trading at maximum loss or maximum profit.  
**STEP AWAY.** I will respect stop loss and, if I'm feeling emotional, I will take a break. I don't want to blow up (more) my account. I want to do this for a living. I know this is a massive hit. I feel so disoriented.

**RESPECT MY RULES.**

**BE OBJECTIVE.**

**KEEP THINKING POSITIVE.**

I will re-evaluate my daily goals and focus just on ONE main trade, hit my goal, and move on. My new goal is \$100 per day over the next 10 days. I will make my money back. I WILL rebuild this blow. I will be focused, disciplined and a good trader that respects the rules.”

Norm, one of our long-term traders and trading coaches in our community, responded:



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“Keep your head up, Fernando. We've all been in that place at one point in our trading careers. You have the right thoughts moving forward. Reduce size and goals as you get a feel for trading live money.”

Fernando then posted:

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“Thanks Norm. New rule for the time being is 2 trades maximum per day. \$100 goal per day. Just realized it's around \$20,000 per year. So for my first year that would be amazing since I'm still holding on to my current job.”

In a different post later the same day, Fernando added, realistically I might say, this observation:

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“\$100 a day builds the account, and paves the way for jumping to full time.”

The advice and encouragement from members of our community continued. Robert posted:

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“We've all been there! You are definitely not alone. I would suggest forgetting about that loss. The moment you start thinking about 'making it back' is when emotions enter the equation again. Focus on trading small and trading well.

Your recovery plan sounds like a good start. Also look into Risk Controls to prevent these types of days from occurring. Best of luck.”

Fernando's honesty led other traders to share their thoughts on suffering a significant loss. Peter posted:

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“I am on the same boat. I always tend to allow more loss than is healthy and break the rule quite often. I know everybody is different, but I want to share with you my experience doing what you are planning to do.

When I limited myself to 1 or 2 or 3 trades only, my brain was even worse in accepting that I was wrong with that 1 trade and I did break the stop loss rule even more often and worse, so beware of that.

Other thing that happened to me was that after a big loss, like you said, I tend to accept small profits and exit too quickly—basically not doing the right things everybody knows, so another breaking of rules.

As stated above, in my opinion it is best to forget about the loss, but I mean really, really forget. How do you know? When you go to sleep and you do not think about the money, it is the good way to go. Do not think how you can make it back or how you could have done better. But it takes time. First, you need to be honest with yourself, and if \$1,000 is disturbing you so much, then you should definitely go with lower position sizes next time. But this

time, really and honestly, no breaking the rules. Focus on doing the right things, and even if you end up the day with -\$150, you will feel happy. I guarantee.

Also, it is good to try to make a habit that you stop thinking about trading when you stop trading and process the trading journal. At the time you write down the journal comment about the trade, stating what you did wrong, your mind should be settled down and you can think about friends, family, or do something else.

Next challenge is to:

**DO ONLY TRADES WHERE YOU KNOW THE ENTRY, STOP LOSS AND EXIT TARGET.**

Really and honestly. Copying Andrew or other guys' trades really does not work the same as it works for them. If you need to talk about it, you can find me in the chatroom, and I will be more than happy to talk about the good and the bad, as it helps me a lot as well.

But do not give up! If you experience all of the bad, the good will come as well. Most important is not to repeat the same mistakes—which I still struggle to achieve.”

Sheela shared:



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“Same here, with my couple of weeks’ trading experience, today I lost \$1,200. Have habit of starting with big volume and kept adding as the price dropped and ended up with that big loss. Lesson learned, with big price pay! During

first 5 minutes after opening, never expect to buy stock with bottom or lowest price when the stock is violently shooting up! Which is what I did today and did not get filled on time. Should have let go! But I did not, and resubmitted, and ended up filled with bigger price.”

William replied to Sheela:

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“A friendly reminder that you are not alone. I have been there over a handful of times. And I personally know how hard it is to recover from it. A couple of ideas of insight on what to do going forward:

1. Do you have risk controls and a maximum loss to prevent this? If not, search this forum and our YouTube channel for ‘Risk Controls’ and consider implementing them on your account.
2. Forget about it. Take the lesson learned, never do it again, but do not agonize over it going into tomorrow.
3. Some of my BIGGEST losses are the next day AFTER a somewhat big loss, so consider doing a no trade or 1 trade challenge tomorrow.
4. This is a silly one in terms of trading insight, but I promise you it has helped me every single time: Do something randomly nice for a loved one or stranger. Go out of your way to help someone else or show compassion to someone that needs it.

After doing that, you might be reminded that Trading isn't everything in Life and there are so many more important things in this world. It really helps me to put everything in perspective."

Trader Buck mentioned in the same thread:

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"I had a couple of days like that. I was setting my maximum S/L [stop loss] to 1% but dropped that down to a fraction of a percent, which means small share size. Until I trust myself to follow that rule, I won't go back to 1%. Someone previously mentioned limiting trades to 1-3, I too find that unnecessary. Maybe set it to a more realistic maximum of 6 per day, do really much more, then you're entering Hulk territory...in my opinion."

Rob shared about what changed after he lost \$1,000 in one trading day:

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"I remember my -\$1,000 loss day very well. That was the day that I can pinpoint that things got better. That day was my 4th episode of going "Hulk" and my worse one. Each time was the same. 2-3 weeks of good trading and

then all of the money gained out of the window in a few minutes.

I tried a few different methods to rid myself of my over-trading and going hulk with only short-term success. Instead of going hulk, I was going to daily maximum loss about half of the days. Then I made a few changes:

- Changed my platform back to DAS, mainly for risk controls.
- Held myself to a \$25/trade risk.
- Posted my journal on the Bear Bull Traders website every day. I think about this on almost every trade, ‘Am I sure I want to take this trade and have other traders read and think, what the heck was this newbie thinking?’ The trades I don’t think that are usually my bad ones.
- And the big one. Hold myself to one trade a day maximum.

Now, I am pretty sure my level of discipline is much weaker than the average trader so I needed to be more strict. Plus, I have a real overtrading issue that I need to address. So I needed to be much more strict. Can I say I overcame my revenge trading quickly? Heck no, it was very painful to walk away after a winning trade and excruciating to walk away after a losing one. It hurt every day for weeks. But it did finally change things. After almost a month at 1 trade/day, I allowed myself a second trade if the first trade was a winner. And after 2 months I still have that rule because I still can’t recover from a loss quick enough to trade again. Then today I traded terrible and I had zero instinct to trade again. No feeling of revenge at all. I broke many rules on the trade and my

first instinct was, ‘That was too painful for me to even simulator trade, I’m going to walk away and help my wife get the kids ready for school.’

The good news: You do forget about the loss as soon as you set goals that don’t pertain to that loss. My goal was to have the discipline to walk away after one trade. After a couple of days, that was my new goal, and the -\$1,000 lost all importance. As Andrew and the rest of the Bear Bull Traders instructors say, ‘It was part of the tuition.’

All of us could have had very happy, satisfying lives without reaching inside of ourselves, to our deepest part of our psyche, and pulling out our darkest demons and confronting them. Who does that? I spent the previous part of my life making an effort to avoid doing that. But, we are doing it, and I finally feel better than I am.”

Trader Ray responded to Fernando’s initial post:



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“Definitely stay positive. How a trader handles losses, even bigger ones, is going to be the difference between success and failure over the long term. That seems to be the main difference between winning traders and ones that don’t make it, it’s how they deal with the losses and drawdowns. Focus on positive thinking and moving forward. I found that avoiding negative terms like ‘don’t’ really helps. Instead, say, ‘I will make 100 dollars today’... ‘I will follow my rules, stops, maximum loss, etc.’ Good luck!”

Trader Carlos G shared:

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“I've been there, Fernando. I know the pain of a big loss. My first live day, I completely broke every rule imaginable. I traded the entire day (something I never did in the simulator) and ended up losing \$3,400! Yes, you read that correctly. To add salt to the wound, I was on track to get my account into the green, but held on to a loser and gave most of my winnings back. It sucks, but I haven't thrown in the towel because I know I can do this. Don't let it keep you down. Now, most of my days are green. As long as I keep my red days small, I'll be alright. You will too.”

It amazes me how one person, Fernando, can post some heartfelt comments about losing \$1,000 on his second day of live trading and then, over a 3-month period, so many of our members will post such encouraging comments and useful advice. That is the benefit and power of being part of a community.

Having values and finding meaning in hardship is one way of becoming resilient. Have you ever really faced down reality? Can you find meaning in the challenges and hardships experienced when trading? Do you improvise your recovery after each bad trade?

When I ask successful traders these types of questions, they often cannot answer them. In my experience, resilient traders don't often describe themselves that way. They very often assign their success to luck. Obviously, luck does have much to do with surviving. It was luck that Morgan Stanley was situated in the

South Tower. But being lucky is not the same as being resilient. Resilience is a reflex. It's a way of facing and understanding the world that is deeply etched into a person's mind and soul.

Resilient people face reality with truth, make meaning of hardship instead of crying out in despair, and improvise solutions from thin air. Resilience is not only genetic, it is a skill that can be learned and planned. Why is it that some traders do not falter when they suffer real challenges and hardships? The answer is one word: resilience. Resilient traders are definitely in the minority of all those who start out in trading.



## CHAPTER 3

# **PSYCHOLOGICAL HAZARDS IN TRADING**

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**I**n this chapter I will summarize some of the real-life struggles that traders in our community have shared with me. These are all common trading mistakes and psychological pitfalls. I am certain that both new and experienced traders will identify with these stories. I personally have gone through many of these challenges in my trading career and I still face some of them today. It is important for every trader to learn about these types of psychological hazards. Some of them are easy enough to avoid, but for others there are no clear remedies. I do believe, though, that learning about them is necessary in order to treat them.

The first step required to stop the downward spiral of any bad habit, addiction, or hazardous behavioral disorder is the hardest: you must identify it, and identify it as a problem. A social drinker enjoys a glass of wine but stops when they feel they've had enough at a party. An alcoholic on the other hand takes a drink but then feels an urge to continue until they either pass out or their money runs out. One must first accept that their life has become unmanageable and that they have a problem. Some, maybe even many, cannot take that step. They will deny their problem and go on to destroy their lives.

It is the same for treating any of the psychological challenges that traders face. You need to first identify and name the precise challenge you are struggling with in your trading. You must also come to recognize that whatever your challenge is, it is almost

certainly a common issue among many traders and that it is not specific to you alone. This realization will help you not to take your mistakes personally, and it will help you to maintain your confidence as you persevere through the never-ending learning curve of trading.

## AVERAGING DOWN

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Imagine you buy 1,000 shares of a company at an important intraday support level of \$10 in the anticipation of selling them at the next level of around \$12. Instead, the stock breaks the support level and drops to \$8. You have lost the trade and you should have been stopped out. As your original trade idea was to go long above the support level, you now have no reason to be in this trade, since that level has been broken. But if, instead of accepting the loss and moving on, you buy another 1,000 shares at \$8, and you now have 2,000 shares with an average cost of \$9. It is unlikely the price will hit your \$12 target, but it is likely that the price will rally back to \$9. At \$9, you can sell all of your 2,000 shares at break-even and extricate yourself from this losing trade with no loss. Even better, if their price goes to \$9.50, you can close your 2,000 shares with a \$1,000 profit. It sounds very tempting, but it is unfortunately wishful thinking.

Averaging down on losing trades is a very common practice among new traders. Matt is a veteran trader in our community who has shared his story about a losing trade he suffered back in 1997 or 1998. In those days, he was trading from the office of a firm in St. Louis, Missouri. Retail day trading from home was not possible for the vast majority of traders in the 1990s because cable modems were not yet widely available for individuals. Self-directed traders instead went to the offices of local firms that had access to the markets through what were called Small Order Execution Systems (or SOES for short). Many of us millennials do not remember SOES. During the 1987 market crash, liquidity in

the market was low and market makers were filling orders only from big investors, leaving behind many small investors and traders with small share sizes. Those small investors could not get out of their positions on time or at a good price. To level the playing field, financial industry regulators implemented a mandatory system to provide automatic order execution for individual traders with orders less than or equal to 1,000 shares. Market makers were required to accept and execute those trades in addition to the trades being made by the large investors.

Primarily because of tech companies, traders in the late 1990s experienced a very strong bull market known as the “dot-com bubble”. The Nasdaq Composite market index, which included many Internet-based companies, was soaring in value every day up to and including March 10, 2000. On March 11, 2000, it crashed. The bubble burst. Prior to March 11, you did not need to be an exceptionally talented trader in order to make money; you just needed to go long on a tech company IPO. Matt, however, decided to short the market as he really did not think the prices he was seeing were reasonable. Let’s read Matt’s story in his own words:



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“I remember vividly trading a technology stock (they were all the rage in 1997/1998 when I was most active) that gapped up ‘excessively’ and ran at the open. I don’t remember the symbol but it wasn’t a household name as it was on my ‘gainers’ scan but I do remember it gapped from \$22 and change up to \$28 and change then ran up a few more dollars where I thought—time to pound this stock into submission with my 500 shares short position.

I thought it was an outrageous move and decided to tell Mr. Market that he was wrong. I usually felt nervous entering every trade when the red lettering jumped up into my ‘open position’ field with the symbol and the number of shares and my trade fill. Normally, I would think...I was filled.... did I make a mistake? Did someone on the other side of this trade know something that I didn’t? Well...not this time, I didn’t feel nervous at all as I KNEW the stock was ripe for a fall. Surely, these investors and traders in the equity would ‘take profits.’ Well, sure enough, I did not have a stop loss order in the system and I felt I didn’t need one as I could not be more confident that I was right.

The stock initially moved a few ‘eighths’ in my favor. Remember, in 1997, decimalization was not fully here yet. Stocks were still trading in 1/8<sup>ths</sup> and even 1/16<sup>ths</sup> or the rare 1/32<sup>nd</sup>s of a dollar. I felt like, ‘I am going to make a killing on this.’ Just as I was about to enter some ‘take profit limit orders’ at \$1 and \$2 per share, and as I was preparing to scale out on this ‘easy \$1,500 profit trade.’ the shares start RIPPING higher and I was the proverbial deer in the headlights. I was emotionally unable to sell the shares for the loss as I knew that was the thing to do.... just hit the FLATTEN button!! Then that voice, that terrible voice, told me that this price movement is irrational, insane and cannot continue. The voice in my head said, ‘Double down, you have the buying power, this stock is going to pay you \$3,000 before the day is over.’

So I did. Predictably, there was a slight easing of price and my mind is now flooded with some doubts. Should I get out at ‘break-even’? Maybe a \$100 loss or a small profit? As I was recalculating my thoughts and reduced

profit goals, the shares start to rip even higher again for another dollar or two. I look at my P&L and I saw the sickening sight of MINUS \$2,785! Now, this further clouds any judgment or reason that I had before this. My mind is being ‘peppered’ with everything from ‘this can’t be happening’ to ‘it HAS to fall’ to ‘God, please let this trade go my way, I will never do something this stupid again’ to ‘dude, get the hell out, FLATTEN!.... But...but, I can’t...the pain of a now \$2,950 loss and growing is so severe — how will I tell my wife.... My wife, SH\*T...she is going to make me quit trading and get a REAL job — ugh, no, this trade either has to work or I will have to lie and not tell her how stupid I am. Now over \$3,000 down, I start placing limit orders to cover under the market a few hundred shares here, a few hundred there.

It’s like I am begging the stock to just fall a little bit and ease my pain...PLEASE...here is a little taste...come on, Mr. Market. The stock keeps ripping, a short squeeze from hell. More praying, more sweating, now some cussing and anger. My emotions are all over the place. The traders next to me are now watching this horror show (both the traders at each terminal next to me and 3 or 4 standing behind me) and I think they are both amused at my plight and genuinely scared for me as I am totally ‘on tilt.’

In a final act of stupidity as I now have people watching me live and I can’t lose money, right? — that would be embarrassing — I triple down another 800 shares. The groans from the onlookers were ignored and I knew this stock had to fall. Had to. This is crazy. There was momentarily relief as the stock started to head lower for a short bit but it was met with more strong buying and did not, unfortunately, let me out of the trade at my price points where

I was offering/pleading the market to hit. After it zipped by my last shorting area around \$34, I had all I could take and hit the flatten button.

I was defeated. I got a few pats on the back and ‘get ‘em next time’ kind of words from my fellow traders who witnessed this carnage, but the other traders around the office (maybe 10) couldn’t even look at me and pretended to not know what happened, even though we had a ‘trade reporter’ where we could see everyone’s trades. I was humiliated and stunned and dizzy and tired and angry. I shut down the trade station and headed for the door not knowing if I would come back to trade tomorrow. I had lost over \$5,000 on what was supposed to be a simple \$1,500 profit short. I was planning on being in the office all day. My account was \$20,000, which gave me about \$100,000 in buying power in those days at this firm. I also had to pay \$20 per ‘ticket’ as it was called back then for each trade, meaning that was another \$60 in fees that I lost. To sum up this story, I just told my wife that it was a ‘bad day at the office,’ and thankfully she did not pry for specifics as it would have been too hard to retell as the pain was real.

After that episode, I resolved to NEVER trade without a physical stop loss. It is just ONE TRADE. If you consider that in a given year you will make hundreds if not a thousand trades...why let ONE TRADE hurt you or take you out of the game? As painful as it was to flatten the trade and go home, I did at least congratulate myself for getting out so I could breathe again, and a few days later I did go back in and trade. The firm closed the doors about 3 weeks later due to a lack of traders and I took that as my signal to return to real estate rehabbing and investment and I did not trade during the huge Nasdaq

boom/bust of 1999 to 2003 or so. I always wonder how I would have fared during that time. Could I have learned from this painful trade and other experiences to make a mint like so many did.... could I have conquered my psychological babbling in my head to trade an edge and execute a written trading plan to avoid the dot.com bust? Or, like so many, would I have let my emotions and psychology get the best of me and lose everything when the crash happened?

Today, I know that psychology is everything. To that end, I will have a written and largely systematized approach/plan to attack the markets. I will know at the time of the trade where my stop loss will be and that I will NEVER move it or remove it. If I lose, I lose...it happens. I will never ‘double or triple down’...it is just 1 trade. No big deal. I will know how to watch the price action and how to scale out...let it run to maximize the profits and still not let a large profit turn to a loss. It’s just 1 trade. By having a largely mechanical system, it keeps my emotions at a minimum and I am just executing a well-thought-out and rational plan instead of allowing external influences like my wife/loved ones, fellow traders, fear of losing, and fear of missing out rule my mind.”

These types of stories are common and happen to the best of us all of the time, including myself. It’s sort of funny to reflect back now and realize that most of them do occur in fact when shorting a strong stock.

In the above submission from Matt, he made two very solid statements about stop losses: “*After that episode, I resolved to NEVER trade without a physical stop loss.*” and “*I will know at the time of the trade where my stop loss will be and that I will NEVER move it or remove it.*”

Another one of our members, Gordon, posted a question to our forum about the use of mental vs. hard stop losses:

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“I've been using mental stop losses, but sometimes (more than I'd like) I let a stock slip before exiting, often ending up with profit/risk < -1.0 to -2.0. I've only traded live for a little under 2 months, so I'm definitely a beginner. What do you guys do with regards to stop losses? Mental or hard? I'm hesitant to use a hard stop loss due to the risk of slippage.”

Robert responded:

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“This is a very common problem that many of us face. At least once a week I find myself freezing like a deer in the headlights. It usually happens in the first 20 minutes when prices fluctuate wildly. There is just not enough time to manually enter a hard stop loss. I'd say I stick to my mental stop losses 90% of the time. But the 10% of the time where I don't, the outcome is usually very ugly.

I am trying to correct this bad habit through repetition. Hopefully it becomes muscle reflex given enough time. I believe the root cause is fear. We are afraid of being wrong — of losing money — so we convince ourselves

that the price will come back. As Andrew mentions in his book, it is better to take the small loss than letting things spiral out of control. Commissions are cheap; you can always get back in.”

Gordon then noted:



“

“Yes, I do appreciate the psychology of it all. However, at the moment, I think I am better suited to a hard stop, since my P&L is slowly creeping the wrong way mainly due to my exceeding the stop loss on some stocks that I have traded. Wanted to know from others who use hard stops, if they have experienced significant slippage in the form of spikes that have led to losses greater than the intended stop loss? I would think not, if we stick to trading stocks with high volume and stay away from low float stocks (which I am not ready to trade anyway)? However, I have seen momentary spikes in stocks that I have been following, so.... Anyone who is using hard stops who can say something about their experience? And I’m of course talking about slippage here, because a hard stop would be a stop market order.”

Kyle noted:

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“My last simulator platform was easy, click, set, and forget as far as stops go. All done right on the chart (right click or hotkey). But you would get the stop out on those random outlier prices that sweep the stops. When I switched to DAS, I decided to practice the mental stop. What I'm finding helps is that I'll place a horizontal line where I want my stop to be. If the price hits that line, I close out, no questions. I give a decent slight delay to make sure it's not just a random excursion to a really low price. The only ‘actual’ stop I place into the market is when I move to break-even (e.g., I've taken profit on a target). So far, having that line as a mental trigger has worked.

Regarding slippage: usually the amount is a few pennies. Isn't this more favorable than stopping out \$0.25 or \$0.50 beyond your original stop loss?”

Samir, one of our long-term members, wrote to me to share that he never tries to argue with the market. If the market is against you, you must respect that:

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“Andrew, I have worked to eliminate words like ‘cannot’ and ‘must’ from my mind chatter while I am within a

trade. Markets will do whatever they wish. I believe one of the best skills one can develop is the ability to read price action and to know when one is wrong...one can always re-enter a trade, there is no need to watch a stock move too far in an adverse direction.”

To average down on a losing trade basically means you do not believe in the behavior of the market and you are not taking its direction seriously. Even if the prices are unreasonable, do not forget the words of wisdom that have been attributed to the economist John Maynard Keynes: the market can stay irrational longer than you can stay solvent. No matter how “right” you believe you are about the price, you will receive a margin call and your broker will force you to liquidate your position. Just like Matt, Samir learned his lesson the hard way. One trader asked me:



“

“Hey Andrew,

I’ve had this question floating around in my mind over the last day or so and wanted to pass it along for you to ponder. Why does it seem much easier to lose \$1,000 than to make \$1,000 trading? As in, if the trade direction (short vs. long) had been switched, the trade would be a win and not a loss. Just curious as to the workings of the mind in these situations.”

The answer is easy. It is the normal human inclination to wait on a losing trade with the hope of getting out at break-even, but to take profit quickly. As Matt shared in his story, by the time a

trader gives up hope and closes their trade with a terrible loss, their account is badly and sometimes irreparably damaged. The moral of this lesson: although it is very tempting to average down on a losing trade with the hope of getting out at break-even, traders in general, and especially new traders, should not attempt it.

I always scale up; I add to my winning position. Remember, scaling into a trade is a double-edged sword, and beginners may use it incorrectly as a way to average down their losing positions, sending good money after bad. I don't recommend scaling as a method for beginners. Although they can appear similar, there is a huge difference between scaling into a trade and averaging down a losing position. Averaging down losing positions is perhaps the most common mistake a beginner will make and that will almost certainly lead to the end of their short trading career.

For a beginner, averaging down a losing trade is a recipe for wiping out one's account. Remember, *averaging down does not work for day traders*. I have tried it. 85% of the time you will profit when you average down. But the 15% of the time you are wrong, you will blow up your account. The losses during these 15% of trades will far outweigh your gains from the 85%. Just forget about it. It is a waste of your mental energy. Remember, it only takes ONE bad trade to blow up your account and for you to be done with your day trading career forever.

If it makes you feel any better though, it happens to all of us. During 2015, I made good money from a bullish trend in the shares of biotech companies. In October 2015, however, biotech companies began an incredibly large sell-off. When something is selling off, you really do not know if it will be a massive bear market until you see the charts. And, sadly, you cannot see the charts until it is too late - after the sell-off is finished. I thought the sell-off must be a normal pull-back. During that time, the Direxion Daily S&P Biotech Bull 3x Shares (ticker: LABU) started to sell off too, and its share price dropped from \$148 to below \$60. I purchased 100 shares at \$120 with the hope that it would go back to \$148. It did

not. It went below \$100. I added an additional 100 shares. My average was now \$110. It plunged further to \$80. I added 200 more. My average became \$95. It went further to \$60. I added 400 shares more (and I was almost out of money). My average became \$77.50 and I held a huge 800 share position on LABU. It dropped further to \$58. I was just long, and I was so very wrong. I got a margin call from my broker. I could not add further money because I did not have any. My broker froze my account and sold my position. I had the most devastating loss in my trading career. Two days later LABU rebounded to over \$100.

I said to myself, “If I only had a bigger account...”

If you think that my severe loss on LABU was because of my account size and not my overtrading and improper risk management, let me share with you the story of a Canadian trader whose gamble on the natural gas Futures market went bad. You can do an online search of Brian Hunter yourself and read more about him.

Brian Hunter was a superstar trader with an impressive track record at Amaranth Advisors, a massive hedge fund with over \$9 billion in assets in 2006. This 32-year-old trader from Calgary, Alberta, Canada was up \$2 billion from trading in natural gas earlier in 2006. That summer, though, natural gas dropped to below \$4 in a terrible, unusually steep down move. With a deep billion-dollar pocket, Hunter ignored the market and repeatedly averaged down on a risky, volatile bullish position on natural gas. JPMorgan, his broker, kept calling for more collateral to support his enormous positions, and when the collateral didn't arrive, he was forced to liquidate his positions. Amaranth Advisors went from \$10 billion in managed assets to \$4.5 billion, accepting a \$6.6 billion loss which led to the company's being dissolved entirely.

Just a few weeks after that, natural gas prices rebounded and actually went higher. “If only Brian Hunter had a bigger account...” Apparently an account with \$10 billion in it was not big enough.

For the trader at home with many dollars less than billions, you cannot withstand such drawdowns. Brian Hunter believed that the price had to go up and not down. He was wrong at that time. I don't know why, but traders like Hunter will at times stubbornly put being right about their decision ahead of making money. These are the types of traders who conveniently forget that the market can remain irrational longer than they can survive in the game. You cannot let your pride get the best of you. If you've made a bad decision, take a loss and get out early. Predictions and speculations have their place, but the price action of the stock is the most important indicator for traders like us. If you believe in an irrefutable trading opinion and the price action does not confirm your bias, then simply do not make the trade. Predictions without validation from the price action are not advisable if you intend to enjoy a long trading career. Your job is not prediction and anticipation, but rather the identification of trends and then the taking of a successful ride on them.

## **TURNING A DAY TRADE INTO A SWING TRADE**

Never argue with the market, and never try to reason and justify the fundamentals of a company for your day trades. In my earlier book, *How to Day Trade for a Living*, I introduced a rule that you must close your day trade position at the end of the day, even at a loss. You should never turn a day trade into a swing trade and hold it overnight. This did not resonate with some traders. Roy Johnston, a reader of the first book, wrote a 2-star review, as excerpted in Figure 3.1 below, stating:

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“The really big thing is to get out of your trade at the end of the day. Vamos!”

 The really big thing is to get out of your trade at the end of the day. Vamos!

By Roy JJohnston on February 8, 2018

Format: Paperback | [Verified Purchase](#)

Andrew's book is more detailed and better illustrated than the other four or five day trading books I have read. I am a successful day trader for last five years. This book is great for beginners!

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**Figure 3.1: A review of my first book,  
*How to Day Trade for a Living.***

Sorry, Roy, but I still stand by my opinion. A day trader must follow the rules and plans of their strategy, and this is one of the challenges they will face when in a bad trade. You may very likely find yourself justifying staying in a bad trade by saying, “Well, you know, it’s Apple, and everybody knows how successful they’ve been. They’re definitely not going out of business. I’ll just hold this until tomorrow and see how it goes.”

This is one of the deadliest sins a day trader can make. You do not want to do that. You must follow the rules of your strategy. You can always get back in, but it’s hard to recover from a big loss. You may think, “I don’t want to take a \$50 loss.” Well, you definitely don’t want to take a subsequent \$200 loss. And if you ended up taking an \$800 loss, it would be really hard to recover from that. Take the quick losses, get out, and come back when the timing is better.

Of course, I am not against holding shares of Apple overnight, or any other stock for that matter. There is nothing wrong with holding positions for a few days, and much money can be made on

the market from doing this. But if you plan to trade overnight, you need to remember that now you are making a swing trade, and swing trading has its own rules and considerations. You should never turn a day trade that goes badly into a wishful swing trade. It often does not end well. You may get lucky a few times and the stock will bounce back, but the market will eventually punish you if you get into the habit of having a “holding it a bit longer” type of attitude. My friend Brian in our chatroom often holds many stocks overnight, but he holds them overnight on purpose, and only after reviewing daily charts, market conditions, and many other details. He never keeps a losing position overnight simply because he got stuck in a bad trade.

Another example comes from Trader S. In his first email, he explained:



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“I am an ironworker and want to get into day trading. I already started about 5 months in trading. I read your book and it was helpful, but there are a few things I still don’t understand and I hope you can assist me. Don’t mean to intrude on your time. Thank you.”

Like everyone does, I receive quite a few emails each day, and I especially try to find the time to answer questions from new traders because I enjoy those exchanges. I asked Trader S how I might help him and then I learned what I was fearing. He was looking for my opinion about a few bad trades that he got stuck in.



“

“I have 4 positions open and I’m down on all of them. My account is not allowing me to day trade. I’m currently allocating funds to day trade. Do you think I should hold the positions until they are back up or should I cut my losses? These positions are holding up more than 50% of my account.”

Unfortunately, I could not help him. I do not know enough about Trader S to provide any sort of meaningful advice. How big is his position? How big is his account? How old is he? Does he have a family? Is this money his retirement account or is it money that he can afford to lose? I was not in a position to offer any advice. What I might personally think is irrelevant. I advised Trader S to talk to a qualified and licensed advisor in order to seek professional guidance for his position. The most frustrating part of his situation is that he now does not have sufficient buying power to be able to day trade. He is stuck in some losing positions. When you accept a small loss and get out, you free up your buying power for other trades. You then have the ability to take new trades and hopefully recoup your losses. Sadly, if you are stuck, you are unable to move, and you are also unable to keep trading.

Samir had a similar bad experience, this time on a very volatile leveraged ETF for crude oil. He did not mention which one, but I assume it must have been the VelocityShares 3x Long Crude (ticker: UWTI). He started with a big account, but he has ended up with a small account. He learned a very hard lesson: you need to stop the bleeding as soon as possible. Let’s read about Samir’s experience in his own words:



“Much of my trading pitfalls are a result of being too risk averse when it comes to profit taking, and risk seeking when it comes to loss taking. That is to say, I have invested a disproportionate amount of time and energy watching losing positions than I have watching winning trades. I do this hoping that losing trades eventually make a favorable turn so that I can minimize the loss. All that this has effectively managed to achieve is to invert my expected value ratio: a few large losses completely wiped out my profits.

This occurred most drastically in March of 2017 while trading a leveraged oil and gas ETF. I was new to trading and naïvely thought that all stocks will eventually revert to the mean. This worked to my advantage for a week where I was making 1 to 2% per day using Bollinger Bands. However, on a fateful Wednesday, I came to find out the existence of the crude oil inventory report which sent prices traveling in an unfavorable direction while I sat thinking, ‘This excursion *cannot* go on forever.’ It did go on for what seemed forever. I sat on that losing position for a week, when all of my trades hitherto had been less than an hour. Needless to say, it only returned to my entry price months after I exited the position. It was a severe blow which, if I had my wits about me, should have sent me to the simulator immediately and for a long while. Instead, I tried to make up my losses, taking on larger and larger position sizes and riskier trades, which of course only further skewed my net profit to the red.

I had committed the entire gamut of trading sins and should have been damned to hell.

I cannot say that I am completely free from committing those sins today, but I can certainly say that the first step in the long path to correcting trading misbehaviors is to stop the bleeding. This I have done by using a simulated account for months and now only trading a small fraction of what has already become a small account.”

Samir learned from his mistake, and we sincerely hope that reading these horrific stories will help you to avoid the various sins of trading. That is the main reason we wrote this book.

## **BLOWING UP YOUR ACCOUNT: ONE BAD TRADE**

Our friend and mentor, Mike Bellafiore, is the co-founder of SMB Capital, a proprietary trading firm in New York City. He is the author of *One Good Trade: Inside the Highly Competitive World of Proprietary Trading*. In his book, he explains that SMB Capital teaches their traders how to improve by having them focus on one good trade, one at a time. He emphasizes that traders won’t get better by just saying to themselves, “I really want to see better results.” Traders will get better only by working on and eliminating the small errors they make, one at a time. Do not judge a trade based only upon the profit or loss results! A profitable trade may or may not have been a good trade, what Mike Bellafiore calls One Good Trade. A losing trade may very well have been One Good Trade. If the fundamentals for a trade are sound, then that trade, even if it is a loser, is still One Good Trade. Consistent winners do not focus on the money, they only focus on making One Good Trade, one after the other. Your job is to

make One Good Trade, and then One Good Trade, and then One Good Trade. This is of course the opposite of those who are consistent losers.

I realize though that most losing traders are not really consistent losers, they are instead blowing up their account on one bad trade. They do not slowly lose the funds in their account; in fact, they are consistently making a profit. What ends their trading career is one bad trade, one stubborn trade, where they do not accept a small loss. You might be amazed, but the majority of traders I know are blowing up their account on only one to four very bad trades. The losses on a small number of bad trades are so significant that it ends their trading career.

A member of our community once lost 75% of his account on one single bad trade. The loss forced him to close his account. He later angrily emailed his broker and complained about their \$2.95/trade commission, as though a lower commission would have been of any help to him. This is actually a common story among traders who make a reasonable trade but, for whatever reason, their trade turns to a loss. They forget that a small loss can still be One Good Trade. They forget that they themselves may have done nothing wrong. It's simply the fickle nature of the market. What they do wrong though is not accept that small loss and instead make their small hole larger and larger. They add more and more to their losing position until that One Good Trade becomes One Bad Trade. The following story is an example:



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“I hate to say it, but I broke all of the rules. I went live after about a month and a half of simulator. April 23rd I made my first trade in my \$6,000 account. Made \$100! April

24th, another \$300 to bring my total to \$6,400. I'm thinking, this isn't so bad! April 25th, I dig myself into a \$1,200 hole in the morning. In the evening, during the last hour, I scalp my way into a +\$300 profit! Damn I'm good, I think to myself. Then I got greedy and instead closed that day with a -\$300 loss. April 26 I make +\$250. April 27 I lost \$1,500 in the morning. I came back to the closing hour hoping to scalp my way out of this hole again and instead closed the day at -\$4,500. Ticker 'X' was my downfall. At this point, \$2.95 commissions are a tough barrier to pass. My buying power is reduced to 4:1.

I know my personality and I will 100% be back. I bought a lifetime membership. And what else am I going to do with four monitors sitting on my desk?

I think I need to just save \$30,000 so I don't have to pay large commissions. Another option is to save \$6,000 again and follow the rules this time.

In any case, I gotta clear my head. I did send an email to CMEG offering them two options, 1. lower my commissions to \$0.005 per trade until I get my account back up to \$6,000, or just close my account.

I'm sure they will opt to just close. Overall, Bear Bull Traders is fantastic. I have nothing but great things to say. Every single bit of advice given to me both in the book and in the chat room has been spot on.

In the words of Arnold Schwarzenegger, I'll be back."

Live to trade another day.

## **OVERTRADING: CRACK ADDICT TRADING SYNDROME**

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Robert, my rock star student who I wrote about earlier, blew up his first account. He later posted something in our forum that made me think more about my trading education material. Robert believes he is suffering from a syndrome that he jokingly calls the Crack Addict Trading Syndrome (CATS). Here's what he shared:



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“I had a pretty decent week. Monday, I took a string of bad losses at the open and slowly clawed my way back to green. FB was behaving really well and I managed to trade it at the close to hit my daily goal.

Tuesday was awesome. I made one trade and was done by 10 AM.

Wednesday was a nightmare. Nothing was in play and I got chopped up badly trading stocks which mirrored SPY — mainly TWTR and FB. It was a slow and painful death and I finally hit maximum loss by 2 PM.

Thursday got off to a rough start. I took 2 small losses and stepped away for a bit. When I returned, I made 2 solid trades and hit my daily goal by 11:30 AM. I did some journaling and was about to lock my montages, but then the crack dealer showed up. I took another trade and gave it all back. I got emotional and took 3 more trades trying to get the money back. Those all turned out to be losers. At the close, I tried getting back to black but ended up losing even more.

Dunno what it is. When I'm up for the day — it's really difficult to walk away. And once I give back some or all of the winnings, I get emotionally tied to the money which used to be mine. It's like a part of my mind says 'you have to do whatever it takes to get it back.' There's probably some psychological term for that feeling; I like to call it the Crack Addict Trading Syndrome (CATS)."

As Robert has correctly figured out, trading is addictive because it is stimulating and exciting, just like gambling. As with any severe addiction, a trading addiction can cost you your job, your relationships and your financial resources. Losing even one of those will be apt to put you in a downward spiral. Did you know that your brain reward systems can literally train you to trade compulsively and dangerously? A small part of our brain, called the *nucleus accumbens*, is responsible for evaluating and reacting to our experiences. It is the "pleasure center" that responds to all sorts of things, including good food, chocolate, alcohol, sex and, of course, thrilling trading. The *nucleus accumbens* plays a role in processing fear and impulsivity. The brain produces an opium-like substance called dopamine that rewards the brain's pleasure centers. Dopamine reinforces a kind of training process by your own brain. You get rewarded for certain activities, so you learn to do them passionately. It is therefore hard to retrain and go into reverse, even if your life and financial solvency depends on it.

Abiel posted to our forum an excerpt from an article he came across on the Business Insider website. The article is entitled, "How Much Dopamine Is Too Much For a Trader?" Here it is:

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“Some on Wall Street like to talk about how making money is ‘in their DNA.’ But it’s always surprising to see what turns up when real scientists actually look at traders’ chromosomes. In the latest such study (via The Wall Street Journal), two researchers at Claremont Graduate University’s Center for Neuroeconomics Studies found that the most successful traders had a ‘moderate’ amount of dopamine — not too much, but not too little.

The study profiled 60 New York City-based institutional traders, looking at whether certain ‘alleles’ (how genes are expressed) are more common in successful traders than a control group. They used a simple but intriguing measure of success: tenure on the Street. Analyzing returns, they argued, would not provide enough accuracy since returns depend on a host of factors. Instead, they reckoned that longevity would correlate with an ability to ‘weigh risk and reward, rather than [take] excessive risks.’

They found that traders do indeed have more elevated levels of dopamine than the general population, but also have greater levels of genes that control risk behavior. But there’s hope: They also found the dopamine system can be trained to better assess risk and reward in the context of trading.

Their conclusion: the loudest guy in the room is not necessarily the best:

‘Our results suggest that using a history of risk-taking and competitive behaviors when hiring traders could be a

mistake, though this is often done. Having too little or too much risk-aversion is not associated with success by those in our sample; rather, taking a balanced level of risk appears to be optimal.’”

As long as a losing trader believes that they can “control their losses”, they are headed downhill. This is similar to an alcoholic who believes that they can “control their drinking.” It doesn’t matter if the person is a gambler, a trader or an alcoholic, that mindset will never lead to change.

Hossein, who lost \$3,000 in his first month of trading low float penny stocks, wrote in part to me about overtrading and its addictive danger. Here’s an excerpt from his submission:

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“I noticed that trading is addictive, just like drugs and social media. You have to know when is the time to step back. If you are having a bad day, taking more trades might help you to come back, but more likely it makes your hole deep and deeper. Like I said, save your money for better opportunities, and for sure, being in red does not help you to see potential chances. Once you hit your daily maximum loss, you are ready to step away and call it a day. If you stick with your rules and practice them, you will slowly build up your own discipline, and it helps you by first limiting your losses, then turn your losses into profits. Always be ready to say that this is not the day for me, maybe tomorrow! Shut down your computer and leave your office.”

Dr. Alexander Elder, a psychiatrist by training and a trader by profession, recommends in his book, *Trading for a Living*, that traders, and especially traders on a losing streak, attend Alcoholics Anonymous (AA) meetings. One time when I was on a losing streak and found that I really could not control myself, I did what Dr. Elder recommended. I called Alcoholics Anonymous and asked about the next “open beginners’ meeting” in Vancouver, Canada, where I live. It was free, but there was a donation box to cover expenses. I paid \$5, which was quite the bargain for what I came to realize. The meeting lasted about an hour. I sat in the back of the room. There was no pressure to speak, and nobody asked for last names. It truly was anonymous. Our meeting started with a long-term member getting up and speaking about her personal struggle with recovery. Several other members shared their experiences. All I did was listen carefully to the struggles these AA participants had with alcohol. Do bear in mind that every addict, of course, has a different and unique story.

Every time I heard the word “alcohol” and similar terms, I substituted the word “loss” for them, and I was feeling as if the people in the meeting were talking about my trading. This is exactly what Dr. Alexander Elder explains in his book. I realized that the first step I had to make was to accept that I cannot control myself, that I needed help, and that I needed to re-evaluate my trading plans. I switched back to the simulator.

### What are the signs of a trading addiction?

Fortunately, there are symptoms that should alert you to this very real problem and danger. If you spend far too much of your free time trading, while neglecting family, friends and your full-time job, you need to worry. Similarly, if not only your life seems to revolve around trading, but also you are putting more and more money into the process, disaster may be just around the corner. And if you are borrowing money from friends or using

one credit card to pay off another, it's a sure sign you've got a problem. I knew a novice trader that remortgaged her house for trading in the cryptocurrency market in order to try to make back her earlier losses on marijuana stocks. Additional signs include frustration, aggression, and attempts to suppress other personal problems. In the worst cases, a neglect of personal hygiene and physical health will also be evident.

I always encourage traders to be open with family and friends and seek out their support. Spend time with them on the weekends and when the markets are closed. Even if you think you don't really have a problem and could "stop at any time," be aware that the danger signs do not lie. If they are present more than minimally, you may very well be in real danger.

If you are addicted to trading, or even if you just sense you might be, you must find a way out of this perilous situation. If you trade sensibly and prudently, that is fine, but make sure you monitor your activities and keep things under control. Whatever the case, get proper training and do it professionally. If you really want to gamble, it is probably better to do it in a casino, but don't expect to beat the house any more than you can rely on beating the market.

You need to have the ability to recognize when it is a good time to stop trading. One signal to watch for is low volatility in the market. You need to ask yourself if it's wise to be in the market at that time and if there's enough opportunity available. A second signal has nothing at all to do with the market, but rather with you, the trader. It may sound blunt, but if you are not trading effectively, perhaps it is time to take a break.

There are times when the mindset of the trader is not conducive to effective trading. During periods of low activity, traders can become bored and may make hasty decisions to relieve their boredom. After some losses, they might try revenge trading (which I will expand upon a couple of pages further along). Feelings of

victory and invulnerability after a series of successes can lead to impulsive trading. Emotions such as anger or overexcitement can also precipitate poor decisions.

Our friend and long-term member of our community, Nas, who lives in Toronto, Canada, posted to our forum the following very honest comments after a very bad trading day:

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“I had a really bad day today... down \$1,000. Started with a large loss (\$230) on a stupid chase and spiraled downwards... Revenge took over, FOMO, Greed, Fear, Overtrading, Chasing everything.

I feel bummed. This is the worst day... of recent. For the week I am down like \$752 net of commissions. I guess with Low Floats this happens, but this was fully and utterly self-inflicted, and I take ownership of it.

I NEED TO RESPECT MAXIMUM LOSS, the -\$230 after a +\$20 on the day was my sign to walk away, but since I had a loss yesterday as well, this was for me.

I will own it - I have the desire to be right and straight-away start earning an income. I guess that won't work. It will take its dear time.

Yesterday I was down \$20 and said I needed to walk away, I should have....”

Nas is now one of our most very successful traders and has made profits somewhere in the vicinity of one million dollars. He has been a regular speaker within our community, generously sharing his experiences with our new traders.

“Anhkind” posted a question on our forum:



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“Hey guys, do you have any experience on how to stop trading effectively when you have a bad day? Keep trading on a bad day may end in even greater loss, so for psychology part of the trade, this is a very hard problem, and I would like to know from your experiences. Thanks.”

It’s a very good question and I was pleased to read the useful advice that members of our trading community posted in response:

Frank noted:



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“My target goal is \$150 per day, so my stop for the day is -\$150. That leaves me with 3 bad trades in a row. That way I have plenty of room to improve my P&L and losing a day’s worth of money isn’t soul-crushing. Right now I have around one bad day every two weeks (a bad day is a day that I lost money without making newbie mistakes). As I am not an experienced trader yet (been doing it for two months), I get days when I lose money because I’m dumb and I try to improve on them. Some days are just made to take your money, so I don’t let it go past my daily goal.”

“Thenam” concurred:

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“I agree with what Frank said. My daily goal is \$200 and I quit at -\$200, but ultimately you should set your quit amount at an amount you can emotionally handle losing. For instance, if I set my quit amount at -\$1,000, I just know myself well enough that my trades would start becoming emotional. You have to feel it out a bit.”

Jason mentioned:

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“I try to be critical of my mental state. If I recognize that I’m practicing some bad habits after a loss (chasing, overtrading, FOMO etc.), I turn off my monitor and walk away. I’ll then either ignore it for a while or self-analyze, and if I can get myself back to calm and focused, I might go back. More often than not I don’t. I’ve only been trading for a few months, and I almost exclusively trade in the simulator, but I try to treat it like real money and consider the bad trades and losses as real.”

Abiel added:



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“We need to acknowledge and distinguish day trading risks from losses. As Alexander Elder says in Come Into My Trading Room, ‘We must draw a clear line between a loss and a businessman’s risk. A businessman’s risk is a small dip in equity. A loss goes through that limit. As a trader I am in the business of trading and must take normal business risks, but I cannot afford losses.’ “

“Mumabbas” commented:



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“I really appreciate the sentiment in Abiel’s response. Far too often I find great plays/setups, but for some reason the fear of being wrong and making a bad trade stops me from making a trade at all. The psychology of trading is a huge factor, if not almost all of trading. The technical side of trading, I believe, is something acquired with hours upon hours of practice. To answer the question, I have begun to set dollar amounts, similar to Frank, on when I should stop trading on the day. You must be prepared to take risks, but don’t let losses deter you. Make sure to learn from them and you’ll come out okay.”

Brendon confirmed that:

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“Taking a bad loss right out of the gates can be really tough to mentally recover from to continue the rest of your day. There is no avoiding that feeling, but you learn, ‘Hmm, let’s not take too risky of a trade too early in the day because if it doesn’t turn out, my whole day will be wasted trying to recover,’ and you will jump into other trades abnormally. So, for me, I try not to go guns blazing too soon. I may go smaller size early in the day, or trading less risky stocks could be an alternative if you want to get into the action while waiting for the account killer stocks (pennies and stocks with huge ATR [Average True Range]) to mature and become less ‘risky.’ ”

Paul responded:

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“Losses are going to happen, period. To help with my psychology, I consider my losses to be tuition payment towards my education, and I focus on learning from my loss. For me, I set my maximum daily loss at 1% of my account and a maximum weekly loss of 3%. If I hit 3%, I go back to the simulator for the following week to work on the basics. I have been fortunate enough to not have this happen, but it is one of the rules I set for myself

when I went live. I really don't set a maximum gain for the day because there are days I feel I am 'trading in the zone' and I try and capitalize on that, and there are other days that I feel lucky to get out green and quit when I'm ahead. You are the only one that can judge your risk tolerance and how it will affect your psychology."

"Bikela" noted:

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"Just like others who posted here, I too set a limit of \$150-200 for the day. Today, my first dip in the water was just that, a \$250 loss on a quick drop (a blindslider). I was emotional because it was my first live trade. I walked away for a few minutes to do some yardwork, and came back to regroup, and went back on the simulator to help me focus on trading again. Also, Brendon has a good point on not pursuing low float or fast-moving stock but starting with less risky stock."

And I will give the last word on this topic to Robert, who succinctly recommended:

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"Make a bad trade: take a walk. Hit max loss: take a hike!"

In the large and organized commercial trading settings, traders generally have warning levels and drop-dead levels that activate after losses that are not typical of the trader. A drop-dead level is the maximum daily loss that traders are allowed before they are expected to stop trading for the rest of the day. That level will vary from one trader to another. It is assumed that once they have reached that level, they are not able to read the market effectively and should stop what they're doing.

Independent traders operating on their own should establish their own warning levels and drop-dead levels as part of their training plans. They need to keep track of their trading, including average, frequency, size, and folding. For all of their trades, profitable and unprofitable, they should record the day of the week, the time of the day, and whether the position held was long or short. This kind of information is very useful in establishing personalized warning and drop-dead levels for themselves. The warning levels they establish should provide a reasonable opportunity to scratch or break-even for that particular day.

This, of course, does not mean that there is no longer a need for stops on every trade. Stop loss levels are very necessary in order to minimize your risk on each individual trade. Warning levels and drop-dead levels on the other hand apply to the broader management of your risk over an entire trading day. Usually, after having to stop out on a number of trades, you will have reached one of your warning levels. At this point, you should be willing to accept that you have not been successful, but it is important that you not take that as a sign of weakness or ineptitude. I've found that avoiding this internalization can be particularly difficult for highly competitive traders.

Overtrading is common among almost all new traders, and it is perhaps the number one account killer of them all. Andrew G is a trader in our community, and he has shared the following overtrading story:



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“When I first started trading, I had issues with overtrading and was wondering why I was not making money. Watching Andrew trade allowed me to understand that it is better to wait for the good setups that have the potential to make a lot of money vs. trying to get in every single trade setup. When I first started trading, I was so naïve and had such a gambler mentality. When I saw Andrew take small share sizes on low float stocks, I would wonder why he was being so cautious. I took huge positions on these low float stocks. This led to major losses when I first started trading.

I had to fix this gambler mentality that I had which led to me getting major losses. After watching Andrew trade, I realized you don't need to be in every single trade to make money consistently. This epiphany led to me learning how to be more patient and wait for the big money setups. Following Andrew's advice and using the simulator for almost 3 months allowed me to perfect my own trading strategy. After seeing consistent profits by following my rules, I was able to overcome my gambler mentality that I had going on. I would much prefer consistent small winners rather than big wins combined with even bigger losses.

Furthermore, watching Andrew face his own errors in trading and psychological problems allowed me to learn from his experiences and gave me confidence that I can overcome my obstacles in trading. He clearly explains what he did right and wrong after his trading session and this motivated me to review my own trades as well.

Reviewing my trades really helped me to understand what I was doing right and wrong. It also allowed me to view my psychological state during the trade. For example, after a big loss I used to tend to overtrade to try to make the money back and I lost even more. Following Andrew's advice and creating a trading journal allowed me to fix these errors I was making, which really made me become a more profitable trader. I was able to understand that my psychological condition was not good after a big loss and I had to take a short break to recover from this.

With the help of Andrew's book and chatroom, I was able to drop out of my meaningless undergraduate program at university and pursue trading full time. Day trading really gives me the lifestyle I've always wanted and it was such a huge blessing to find Andrew and his chatroom when I first started to learn about trading."

When you have a bad loss or two, pause and take a break from your trading. Just as someone will go on a vacation and (usually!) return to their job refreshed, a break from your trading station can help you find a new perspective. It is easy to become focused only on the dramatic events of the trading day. Pull back and clear out your head. I take breaks following losing trades and use the time to reflect on the losses and what can be learned from them.

## **REVENGE TRADING**

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Tyler was a college student when he was introduced to day trading. As I mentioned earlier in this book, during Tyler's last semester of college he spent at least an hour each day watching my recap videos on YouTube: "... *I was in awe. I could only imagine the rush of earning (or potentially losing) hundreds if not thousands of dollars in mere minutes!*"

He read several books, talked to a few helpful people, and saved up enough money to open an account. Like many, he struggled with overtrading. Tyler writes:

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*“Recovering from a Losing Start – It seems that my losses at the market Open only seem to get worse. To recover from an initial bad trade, I find myself taking more suspicious trades to try and make up for early losses. If I start badly, I need to restart. I try to step away from the computer, potentially trade a different ticker, and only wait for the best quality setups. I also need to be more comfortable having a loser. I can't hold on to a stock in hopes that it will correct itself – given my luck, it usually just continues in whatever direction I didn't want it to go. ‘Revenge trading’ also never seems to prove lucrative.”*

Having an overtrading type of behavior and being overly aggressive in general is of course not limited to the world of trading. People in other professions or activities that involve win:lose scenarios can also suffer from revenge behavior. In poker, for example, players can go on “tilt,” a term for a state of mental and emotional confusion or frustration in which a player adopts a risky strategy and becomes overly aggressive. This term is closely associated with “steam” and some consider the terms equivalent, although steam typically carries more anger and intensity. In trading, you may not feel that much steam, but you may be very well going on tilt without really noticing it.

Jason is another trader in our community, and in his contribution he writes about his earlier experiences as a poker player and how one can go on tilt in both trading and poker. As a trader, he once lost \$8,000 in one day on his \$40,000 account. That's a 20% loss! Jason learned from that mistake though, and now utilizes several methods to avoid going on tilt. This is his story:

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“Andrew,

In my younger days I played a lot of Poker, both with friends and at the casinos in Atlantic City. In Poker there's a saying: 'Going on tilt.' I've been a victim of it and I've seen great players way out of my league, who were much better than me, get taken out of a high-stakes game because of it. A combination of factors such as lack of sleep and a string of losses that are seemingly supernatural make up the perfect recipe for 'tilt' to sneak in and rear its ugly head.

When a player 'goes on tilt' it means that the player has adopted a 'screw it' attitude. Risk management along with everything they've learned to that point gets thrown out of the window in favor of a no-holds-barred, all-out aggressive play style. The chips in front of that player become a weapon to be thrown at anyone willing to call the tilted one's all-in bets. Obviously, statistically speaking, this cannot happen too many times before the player is beaten and loses all of their chips.

I bring this up because I've witnessed, similarly to Poker, if one trades smart - in spite of the many random events

- it is possible for one to find an edge and become profitable. That being said, just as it is in Poker, in trading, for me at least, the urge to ‘go on tilt’ often creeps out of the recesses of my mind to taunt me after I manage to string together a handful of losing trades, so it is a never-ending battle to protect that edge from my emotions.

If I’m not well rested, then that urge to ‘revenge trade’ or, as Andrew likes to say, ‘Oh fuck it, let’s go,’ grows even stronger. When I started trading I gave in and went on tilt too many times, but after some severe losses that would have otherwise ended in halfway decent days or days with only small losses, I knew I had to find ways to cope with these crippling emotions or I’d be on the street in a wink. I lost \$8,000 in one day in a \$40,000 account, and I vowed that I would never let that happen again. On one hand, it felt like a crippling loss, but on the other hand I felt lucky to have another chance to continue trading after having been so foolish and I was determined not to ruin it.

I’ve found several ways to fight the urge to go on tilt and I shall go over three of them here. Sometimes I’ll use just a single coping mechanism, and sometimes I combine them. It depends on my emotional state.

First, for me, going on tilt means I’m angry to the point of rage and the need to unleash that rage grows so overpowering that I can’t simply push it back. I need an outlet for it, or a distraction from it. The first and arguably least helpful coping mechanism is to remove the problem stock, or stocks, from my watchlist entirely. Forget the ticker symbol; forget the chart. It’s usually a particular stock that sets me off, so I get obsessed with taking revenge on that stock which in turn makes it hard to

focus on other opportunities. Removing the stock altogether forces me to focus on something else which quickly thereafter has the effect of reminding me that there are endless opportunities if I remain patient. Patience alone is worth more than an entire book of trading ‘techniques.’ I usually reserve this tactic for the first half hour because that’s where I tend to find most of the opportunities that fit my style of trading and this coping mechanism doesn’t require me to leave my chair.

The two techniques that follow are not necessarily different from each other, but they are a way to do the same thing differently.

The second coping mechanism is more of a habit that needs to be developed. After every big trade, whether it is a profitable trade or not, if it draws out a strong emotional response, I’ll get up and walk away from my desk for two minutes. I might venture outside or simply unload the dishwasher, it doesn’t matter. As long as I do something that forces me to shift my focus, it has the desired effect. Even though the emotions from trading feel overpowering sometimes, I’ve found them to be proportionally fickle, meaning that if I shift my focus from trading even just briefly, the emotions that had previously so quickly overwhelmed me just as rapidly begin to evaporate. Admittedly, this has the best effect after lots of practice.

The third technique I reserve for the worst of cases because it often means my trading day is over. Some days I’m just not in sync with the market and every decision I make seems to be the wrong one. On these days, I close my scanners and my trade execution engine, I turn off my screens and I devote 30 minutes or an hour to a hobby

(it could be anything that's fun to do). For me, I enjoy Kung Fu and working on/driving remote control cars. Sometimes I'll pick my son up early from school and spend quality time with him. After doing something fun and fulfilling, it is easier for me to sit down and start trading with a clear head again."

Revenge trading is very common. Every trader has done it, and I myself am not immune to it. Even now, there is at least one day each month that I will overtrade heavily. I can literally get lost in overtrading. When that happens, my friend and colleague Brian will text me. His message: "Stop." When I receive a text from Brian in the morning, while I'm in the chatroom, I immediately stop trading. I then feel bad. It's like getting a margin call from my broker. Although everyone is guilty of overtrading at times, the key to success is to know when to stop. In what follows, a member of our community, David, explains his process to overcome revenge trading:



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"In the first week or two of day trading, my heart would race with the adrenaline rush that a trade entry would create. I consider this brief period as my 'honeymoon' with trading. For me though, that was the easy part to overcome. I just consciously calmed myself during the morning preparations for market open, and as I am on the east coast of the United States, I had plenty of time. By my third week of trading, the truly emotional side was under control. But was I now on my way to becoming an accomplished trader? Absolutely not!"

Once a trader gets those initial exciting jitters under control, the honeymoon is truly over. What fills in then are all of the thinking processes that can really play havoc with your performance. For me, I lump most of these mental trading struggles into the bucket of what I call ‘catch-up mentality.’ My catch-up mentality can twist my stock choices, pattern identification, risk/ reward assessment, position sizing, and stop placement. It weakens my resistance to FOMO and lets me jump into trades I did not plan.

I define the ‘catch-up mentality’ in terms of how it occurs on an otherwise promising morning. Envision me at my desk for a couple of hours before market open. I have dug deep into the news and scanners and have a solid watch list prepared. (Since I only joined the Bear Bull Traders chatroom in October, I was on my own for the first nine months of 2017.) The market opens. I watch the price action for the stocks on my list. A good-looking pattern emerges, and I take that first trade of the day. Price moves against me and I get stopped out. Now down after my first trade, it really doesn’t matter how much, my catch-up mentality kicks into turbo drive. I lose confidence in my watch list and question most of the stocks as being not worthy. I look for some other ones to add quickly since my original list must be bad. Meanwhile, back on the ‘bad’ watch list, another two or three perfect patterns emerge that I miss because I am searching for new players. Now I add a stock or two that I normally would never consider pre-market.

Every trader has their own comfort zone for what they like to trade, and for me it’s usually no low float stocks and no NYSE stocks. I am a pure Nasdaq trader, until after

that first trade is a bust. Then all bets are off and rules get bent. Here comes that next pattern on one of the second stringers I added to the list. Since I ‘need’ a win, I might turn a blind eye to something important like confirming volume or spread in that final moment before committing to the trade. Once in the trade, having not secured a great entry, I might let that stop be more elastic than it should be. The result, as you can imagine, is a trade that more often than not fails and, more importantly, a trade that I am not proud of. This type of mental game played out day after day. I controlled my account from any account-blowing losses, but whittled away a lot of capital. In the end, I read Andrew’s book on day trading, joined the chatroom, and traded in a simulator for three months. I have since become a subscriber to the DAS Trader Pro simulator on my own so I can continue training as I see the need.”

A similar overtrading story was shared by Jeremy, another bright young trader in our community:



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“When first going live, I started with small sizes and was slightly positive the first few days of trading. However, I then ended a day negative and it bothered me emotionally, so much so that I went back and kept trading to try and be positive for the day. This only resulted in me being more negative. This is a lesson that I have had to learn over and over. Typically, if I continue trading after being negative in the first 30-45 minutes after the open, I only end up

more negative. When I reflect on why, it is usually always because I have the mindset of trying to make it back, which leads to me not making smart technical trades with good risk to reward ratios. When I've lost money or had a bad day trading, I now do the recap and get away from the computer. This has gotten better with more time and practice, but still is challenging daily. Journaling and reviewing my trades has helped me with this because then I begin to really understand what drove me to make that trade. It helps me determine if it was a smart trade or was I forcing it and revenge trading."

## **TRADING FOR MONEY**

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I always thought that our community was composed solely of private retail traders trading from their home offices. I was therefore quite surprised when I learned that a professional proprietary trader is also part of our community. I'm grateful to Panagiotis for emailing me and sharing his experiences as a junior trader in the highly competitive world of proprietary trading. Although everyone assumes that prop traders are driven strictly by higher profits for their firm and for themselves, Panagiotis actually stated the opposite to me. He emphasized the importance of ignoring the dollar value. He writes as follows:



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“Dear Andrew,

My name is Panagiotis and I am a junior trader in a proprietary firm in London. I moved from Greece last August to

chase my dream and become a professional trader. I was fortunate enough to get hired by a firm here since these companies do not hire people that easily anymore.

Through my interactions, I have seen some very common psychological issues traders have. Unfortunately, they are not getting the right tools to handle these issues. I was lucky enough to know or at least have an understanding of how to handle these issues for myself because I had good experience as a semiprofessional poker player in the past. In poker, one of the first things you learn if you want to have the slightest chance of success is that you have to work consciously on your mental game. Every day.

These lessons from the past are serving me very well and I am very happy to share some of them to help as much as I can new traders like me that maybe did not have the same advantage. This is what I am trying to do in my firm as well.

Since my first day in the company, I have met a good number of the traders in the firm. One common thing in the way they approached the game struck me from the first moment.

They all seemed most concerned about how much they made each day. Even if most of them were on the simulator. Even if they didn't even know yet what the Level 2 is. You would listen to them discuss 80% of their time about how much they made or lost and 20% about strategy and plans and variables. This always troubled me. How could you be even slightly satisfied by a random positive day if you know that it was random. Well, you probably haven't realized yet that it was random because you don't have the big picture of the game.

But this game is violent. And sooner or later it will show you that you stand no chance if you won't start developing a serious plan accounting for every single detail.

But even then I saw most of these new traders being in denial. Still focusing and giving more gravity towards the result of the day. The \$ result. They would feel bad if they had a losing day and good if they had a winning day.

This gravitation towards the \$ amount made per day was distracting them from focusing on the real value: the progress they made developing their plan.

When you start developing your plan, your number 1 priority is to set the variables and *trade according to these variables* to see if the plan works. Your priority is NOT to make money or be positive for the day.

But how can you stop thinking about the money, you will argue. Simply by switching your focus. Your focus should never be on the money in the first place. Especially when you start trading. And this is the reason why when as a new trader trying your strategies, you have to try them on the simulator first.

So, when I was still a beginner on the poker tables, what I was instructed to do was to switch my screens from showing the amount of dollars I would have in my stack to the amount of Big Blinds. *This way, regardless of the amount of money I would play with, my brain could not translate the number I would see to something I could buy.*

This is what I strongly propose new traders should follow.

First, focus all of your attention on the process. Start deriving your satisfaction from how you have been able

to stick to the plan by continually reminding yourself that by doing so you immediately separate yourself from other traders by miles.

Second, the only measurement of how positive or negative is a day should be in terms of cents gained in total in a day, and not dollars. What I mean is, if you play with 100 shares and you made 10c in one trade, lost 15c in another, and won 20c in another, this means that you are up 15c or \$15. Now, if you were playing 1,000 shares, you would be up \$150, but still you would have made 15c. Focus on the 15c and not the dollars. When you will be able to make the 15c and the 25c with consistency, then you have made progress. You can always scale up the money you put on your trade once you achieve consistency.

Third, since our platforms are not able to switch from \$ amounts to how many cents we are up or down, what I like to do when I develop a new strategy is trade only 20 shares. This way, I cannot feel good from being positive, or bad when I am negative, since the amount of dollars I play is very small. So, I give one more good reason for my brain to work and stay focused on the process. This way it can take its pleasure from solving the next riddle.”

Making money should be your long-term goal, but if you need money today to pay your bills due yesterday, trading is the worst possible career for you.

## **FEAR AND GREED IN YOUR TRADING**

Jason, another member of our community, has a background in teaching gymnastics and stunt work. How does he control the feelings of fear that arise during his trading day? He uses two

strategies from his work as a teacher: “scaling in” and “risk-free” training. Let’s read about them in what follows:



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“I have a background teaching gymnastics and stunt work. Mastering fear of injury or failure is a constant struggle for high-level performers. These fears can quickly become self-fulfilling prophecies and can end a career. Over the course of my varied career I’ve learned strategies to help athletes work through fear to accomplish their goals and have begun applying those strategies to my own trading goals.

The first strategy I want to share is a scaling strategy to incrementally feel and reduce fear. In gymnastics, there are a lot of lead-up skills and drills that a gymnast can practice before attempting the high-level skill they’re striving for. A gymnast will perform mostly drills to build competency and confidence, and then near the end of their training session will attempt the new skill only once or twice. This allows the gymnast to experience the rush of fear of the new skill after a long string of positively reinforcing success at lesser difficulty drills. The gymnast may or may not successfully perform the new skill, but they will get a small dose of how it feels and how it can be associated with the drills and skills that have led up to the attempt. Over the course of training the skill over multiple days and weeks of training sessions, the gymnast will slowly build up a fear tolerance, lessening the psychological load and allowing them to focus more on the techniques they’ve learned.

How do I apply this strategy to my trading?

As of now, I'm trading almost entirely in the simulator, practicing my skills in the safety of simulated transactions. I'm still under the threshold of the PDT rule [the Pattern Day Trader rule], so I can only take 3 real money trades a week. I take those 3 trades every week, for better or worse. I still practice good trade and risk management, follow the skills I've learned, and win or lose, exit as planned. I do it because risking real money FEELS different. It's terrifying at first, and every trader feels a rush of fear when they start risking real money. By taking a few real money trades a week, I've begun to build a tolerance to the rush of fear, which in turn makes focusing on the technical skills of the trade easier. I've found I'm slowly making better trades with both real money and in the simulator because I'm learning to tolerate and manage my fear.

The second strategy I want to share I call 'risk-free' training. Gymnasts want to learn high-level skills, even from their first day in the gym. They see high-performing athletes flying through the air, doing seemingly impossible things, and want to do them as well. The longer they spend unable to perform those skills, the more dejected they get. So, while they may not yet be ready to perform high-level skills, giving them the opportunity to TRY them, to feel the rush of the big tricks, gives them a taste of what they can look forward to and motivates them to work harder to accomplish their goals. I do this by creating a safe, risk-free environment for the athlete to attempt a skill. For example, if they want to learn a double backflip, I put them in a spotting belt so they can be certain if they fail (and they will), they won't be injured. They get the chance to experience skills they want to learn but aren't ready for. It's a rush of excitement that motivates them to perform, to remember their goals.

In trading, the ‘risk-free’ environment is the simulator. While we often talk to new traders and encourage them to practice in the simulator how they’d trade in real life, we also have to recognize that all traders dream of the big trades, the big wins, and their ultimate goal, whether they admit it or not, is to make a lot of money in the markets. When I practice this strategy, it’s to prove to myself what is really possible. I fire up the simulator, and while still practicing good trade recognition and execution, I mostly ignore risk management and instead focus on maximizing profits. I’ll buy to my margin limit, I’ll push a trade just a little longer, and when I’m right, I’ll see large simulator profits that I know I won’t in normal trading, at least until I grow my account. But, like the gymnasts doing high-level tricks they aren’t ready for, I get to experience what’s possible, and it motivates me to continue to work on my skills so that someday I will have the skills to trade at that level.”

One of our members, Gordon, reached out to our trading community with the following post to our forum about the dreaded “fear of losing”:

“

“Hi all, I’ll make this simple: at the moment, I’m at a stage of my day trading career where I feel that the fear of losing is holding me back, i.e., the fear of pulling the trigger on a trade where I can see that I have some edge. Anyone have suggestions for resources/tips on how to

overcome this? Would like to hear your opinion on this issue, since I'm most likely not the only one dealing with this."

Gordon is definitely not the only trader who struggles with this psychological issue. Robert responded:



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“We've all been there. Try reducing share size to rebuild your confidence. Go down to whatever minuscule level it takes to be carefree (not careless). For me, that was risking \$25 a trade. Trading small for a long enough period of time will develop the good habits and reduce hesitation. Once you find yourself entering, managing, and exiting without fear, slowly increase share size. The trick is to make it so gradual that your psyche won't know the difference. This strategy allows you to risk more — and make more — as your consistency increases.”

Having real expectations can also help to control the feelings of fear, as well as greed, that many traders encounter. Peter attests:



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“Controlling fear and greed leads to better decision-making. I spent plenty of time researching the average return for a professional trader and I used this information to provide myself with a realistic projection of what I can expect to make from the market. A realistic expectation coupled with good trading practices have helped me to manage both fear and greed in my trading.”

“Spirit Warrior” is another one of our active members. In his prior life, before he entered the daily battle of trading on the stock markets, he was a clinical psychology student of the noted American psychologist, Dr. Albert Ellis. In his submission to me, he highly recommended one of Ellis’s books:



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“One of the world’s great psychologists, Albert Ellis, wrote a book, ‘A Guide to Rational Living,’ that outlines the inner battle we all fight to control our emotions. In a nutshell, the crux is that we all make irrational demands that the world be what we expect it to be. The world goes in an opposite direction, and then we respond, consciously, and unconsciously, that it be other than it is. The cognitions then run along the line of (1) this is horrible, awful, and terrible, (2) I can’t stand this, (3) I’m a failure, and (4) this will always be like this. These cognitions then produce

self-defeating emotions, like greed, fear, anger, doubt, etc. I think you will find the book to be very relevant to self-defeating behavior in trading.

The self-therapy is called REBT (Rational Emotive Behavior Therapy), and is widely accepted as the #1 psychotherapy/self-development therapy of modern times.”

“Spirit Warrior” further shared:

“I didn’t know what to write, but here are some additional, hopefully a little bit gifted words. It’s mostly about letting go of a failure, and not obsessing about a bad trade, but some folks have learned to overreact to failures and thoughts of failure. The book (‘A Guide to Rational Living’ by Albert Ellis) can be a big help in learning to let go and just drive on. The book can help to improve one’s entire life, by learning how to challenge and reduce self-defeating thinking in general. I’m not sure I even understand what I wrote. This all raises the question of the rationality of day trading. You can change the word ‘irrational’ to ‘self-defeating.’

For some of us traders, an internally focused intrusive image of what could be is instantly, prematurely, and automatically acted upon as if it will be. The mediator responsible to re-focus our attention on only what is, is distracted, and fails to keep us from acting on a fantasy. As we drift away from the real, we lose focus on the price action and other indicators, so that our trades become equally removed from reality. Much of our drifting away is brought about by thoughts related to a failed trade.

What are the dynamics of thought, conscious and unconscious, that result in our lapse of staying with what is real and in front of us? The core of the distraction is anxiety

caused by self-defeating ideas related to a potentially failed trade. While worrying about the consequences of a losing trade, we can become irrational, thinking about failing as an event that we can't stand, that it will be horrible, terrible and awful to fail, and that will mean we are failures as individuals. The belief that a failed trade equates to an indictment of our entire existence can be real, and also interferes with being able to let go of a trade. The means to combating this type of self-defeating thinking is by learning the skill to instantly recognize the irrational thoughts, dispute the thoughts as they occur, and dispatch them, so we can re-focus on the trade indicators.

“There is a way out of the impulsiveness that is born from the habit of irrational thinking, but it is beyond the scope of this introduction to teach these concepts. The book to read is “A Guide to Rational Living”, by Dr. Albert Ellis. At the time of writing, it was being sold by Amazon for about \$15. Enjoy the read.”

How can we avoid Fear and Greed? I have deliberately capitalized these two words because they are so significant in the life of a trader. In my opinion, the first step is to recognize their triggers, which are the thoughts and worries that intrude into your mind during trading. Fear can be triggered, for example, by your concerns over your profitability and your account. You have been triggered when you do not enter into a trade because you are too focused on the fact that your \$35,000 account is now at \$27,000 and you have had five bad trading days in a row. That is not the mindset to have. Your previous losses have nothing whatsoever to do with the trade you are about to enter. It is a unique opportunity and you should only be thinking about this one particular trade. If you are concerned that the price action is not clean, or that the volume in the trade is not enough, or that the

order flow is not attractive, that is all okay, for those concerns are not based on fear. They arise simply through an understanding of price action, and the reality of this specific trading opportunity is leading you to make a legitimate and appropriate decision.

But, if your concern over another loss is based on a bad trading day the week before, that is a disruptive fear. While you are in the midst of a trade, anything that results in your thinking about how well or poorly you have been doing overall is a fear trigger that can nudge you out of your zone. The validity of your current trade idea/plan has absolutely nothing to do with how you have traded in previous days. If, instead of responding to the market, you are reacting to your own concerns regarding profitability, you are acting in fear, and that thought process will take you out of the current reality of the market. You will no longer be absorbed in the market and instead you will be acting based upon your own uncertainties and insecurities.

Your assignment for this section of the book is easy: whenever you fear pulling the trigger, ask yourself three questions. Why are you afraid? Is it because of the price action? Or is it because of your own insecurity? And do be honest with yourself, for no one ever needs to know your answers. I try to remember to ask myself these three specific questions whenever I get struck by fear in the middle of a trade. For example, I recall one time that I could not pull the trigger because I did not know what to tell my wife if the trade resulted in another loss.

Greed is excitement over anticipated future profits. Whenever I jump into a trade thinking, “*Oh, I’m going to make \$2,000 on this one,*” it usually does not end well, because the greed of anticipated profit stops me from evaluating the price action and getting a proper risk to reward entry. I do my best to ignore other traders’ P&L because I know I have a tendency to try to always do better, as I am a very competitive person by nature. If I know Robert or Brian or Carlos has made \$2,000, I want to

get myself into that range too. And that, plain and simple, is greed, because that thought process has nothing to do with the trade ahead of me. However, if I see that a stock is moving toward an all-time high with heavy volume, and traders are hitting the ask and pushing the price higher, I might take a heavy size, and there is nothing wrong with that. It is not greed because I saw a clear signal of opportunity to take a big size. There is a definite difference. If I take a big size just because Carlos in the chat previously made significant money on the trade, or another moderator made a large sum of money and I did not, it is greed, but it is not greed if I take a big size because a trend is obviously strong. That is capitalizing on a good opportunity, and that is the secret to position sizing, and many new traders end up missing this. Do you see the difference between greed and capitalizing on a good opportunity? You must ask yourself, "*What is the main reason behind my decision?*" While on the surface that reason may appear to be hidden, it can actually be found deep in your psyche at the precise moment you are making your decision. That is how you differentiate them.

As an educator, sometimes I browse around in social media and take a look at the competition, and when I do I see other trading gurus and educators posting unbelievable profits. I try to ignore them completely. When I started seriously teaching trading in 2015, most educators were posting profits of only a few hundred dollars a day. Now, it is not unusual to see a famous trader and educator posting a profit of a few hundred thousand dollars from a trade! Regardless of whether these profits are real or not, is it realistic for most traders to have those types of expectations? I personally find that this type of information really distracts me from my own trading. I end up being triggered with a sense of greed: "*Why not me?*" I'm also triggered with feelings of low self-esteem and a loss of self-confidence: "*If person X is making this much, I need to be making a little more than that so people know I am better.*" I have deliberately

decided to go in the opposite direction. I do not focus on my profits (or losses). I instead only focus on consistency and teaching process-oriented trading. I don't brag about big profits. Of course, that hurts our educational program as most people are attracted to big numbers and big profits. Nevertheless, those serious traders, who really want to learn the process of trading, see value in our teaching style.

You may correctly ask then, how does one go about stopping these negative thoughts of fear and greed? The answer is that you cannot. Negative thoughts that create feelings of fear and greed are inevitable in trading. You will always have them with you. The question is whether you will buy into them or not. In other words, it's not those thoughts that take away your focus, it is your reaction to them. This is an extremely important concept to grasp. Everyone, even the most profitable and well-capitalized of traders, experiences these distracting thoughts of fear and greed. The problem though is when you react to them instead of to the current market conditions. The solution is to first recognize and acknowledge the presence of these negative thoughts. You then need to ask yourself why you are afraid to enter into the particular trade. Is it because of the price action? Or is it because of what happened the previous trading day?

In the same fashion, before taking a large size on a volatile stock, you should ask yourself why you are taking such a big size. Is it because the trade is shouting "*grab me by the face*"? Or is it because Andrew or someone else has made good money on it and I should too? Or is it because I've had a bad loss and I need to make that money back?

Whenever you catch yourself thinking about your current P&L during a trade, or how much you or others have been making or losing in your trading, you need to pause. Take a few deep breaths, stand up, and loudly ask yourself what you're seeing in the price action at that moment. You must always be market-focused, not

self-focused or other-focused. People in the chat and in our community always hear me asking myself, “*Why am I getting into this trade?*” This is an important question I ask myself before every trade in order to keep my mind in check and to ensure that I am not being distracted by extraneous matters.

How can a trader improve their ability to be patient during a trade? It’s a very important question and a real struggle for many traders, whether they be novice or seasoned. Nick posted the following to our forum:



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“Hey guys. I am really struggling in the area of consistency. I have two major issues. So far, I can have more green days than red days, but I lose too much on red days. I have worked to stop revenge trading when I am in ‘big red.’ It’s getting much better now, but I still do not do good in terms of patience. The only time I am patient is when the stock is really in my favor and it starts to move immediately, like in an ORB [Opening Range Breakout]. I will take some profit in the first or second drop, then I will feel safe to let it run. Most of my good days come from this scenario. However, when the stock does not move in my favor very soon, I tend to be nervous, and get out of my position too early, either with very small profit, or a premature stop out.”

Carlos responded:

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“You are experiencing what most of us are going through as new traders. The biggest issues for me when I started live are the two you just explained, and I believe they are what stop a lot of us from becoming consistent and growing our accounts.

The first issue is we become strict with our winners and take profits right away, and we become loose with our losers and let them get bigger than they need to be, wiping out several winning trades.

Secondly, is that on red days we keep trading to try to make it green or break-even, and boy what a mistake that is. When we hit our goal we stop trading, feel great, and hang out in the chatroom or just leave to go enjoy the day. Just Perfect. But when we are in the red, we want to be green so bad that we keep trading, and lose 2x or 3x more than what the loss was originally. My biggest losing days have been trying to dig myself out of a hole to end green, wiping out hard work on other good trading days.

We need to be strict with our losers and losing days and call it quits, and we need to be loose with our winners (but not too loose to take profits on the way up, lol).”

Nick replied:

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“You are right. That's the two sins for day traders. Many of my bad days are because I want to break-even. I have to find a way to overcome this psychological barrier. Sometimes I just feel like my performance is doing a consolidation. Every time it tries to break the resistance, it gets rejected, or has a false breakout.”

Robert added:

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“When I find myself thinking about P&L during a trade, I start talking out loud about the price action. For example: ‘We are making higher-highs and higher-lows. This moving average is clearly support. The original price target is still valid.’ I've found this method forces you to process the market information, which leads to being more patient and objective.”

Lastly, Gordon, who shared that he had been trading live for about three months, posted:

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“(1) I use hard stops for all of my trades. This puts a quite precise limit on what I can lose on a trade, and takes the edge off completely psychologically of when to get out of a trade. If I get stopped out, I simply move on to the next trade (or stop all together). At the moment, I am mostly using a stop loss of 20c on, for e.g., ORB [Opening Range Breakout] and VWAP [Volume Weighted Average Price] trades. For both of these, I try not to enter a trade unless my stop loss is below or above the VWAP (for long and short trades, respectively). Perhaps later, when I get better at this, I will start using mental stop losses, but at the moment it makes sense to me to use hard stops ... Trading rules are always dynamic, I think, so the above is where I’m at right now. Will most likely change in the future as I gain more experience.”

## **FEAR OF MISSING OUT**

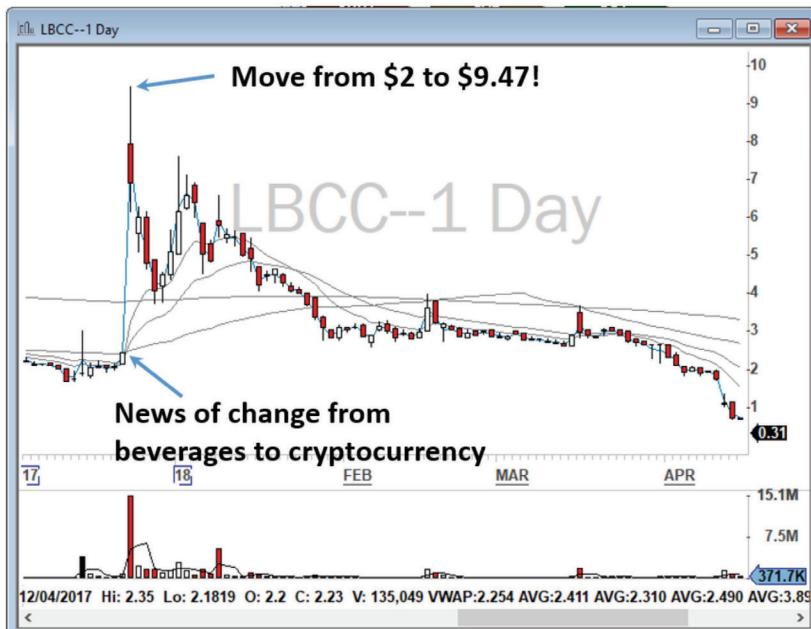
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Fear of Missing Out, or FOMO, is perhaps the deadliest of all trading sins that one can make. It is wishful thinking, and it can be a very costly trading mistake to jump into a trade before a pattern has either formed or been confirmed. It can also be a very costly trading mistake to chase a pattern that is discernible but is not offering a good risk to reward opportunity. FOMO can strike at any time: in the seconds and minutes involved in the decision-making process of a single day trade; in considerably longer time frames such as when one is swing trading; even during the unfolding of a once-in-a-lifetime stock market event.

As I wrote in another one of my books, I am sure many readers remember the “tulip mania” of Bitcoin at the end of 2017, when the price of Bitcoin reached almost \$20,000 and then collapsed significantly. The term tulip mania refers to a period in the 17<sup>th</sup> century, during the Dutch Golden Age, when the Netherlands was the world’s leading economic and financial power. At that time, the prices of some fashionable tulip bulbs reached extraordinarily high levels and then, in February 1637, dramatically collapsed, essentially becoming the first recorded speculative bubble (a situation when the prices of assets or commodities deviate considerably from their real intrinsic values). Tulip mania, similar to the cryptomania craze of 2017, was more a socio-economic phenomenon than an economic issue or crisis, as tulip bulbs were not a significant part of the Dutch economy, just as cryptocurrency is not (or not yet at least!) a significant part of our global economy.

Similarly, in 2017, ordinary people, uneducated investors, and people with limited financial literacy were rushing to buy cryptocurrencies. The market was unbelievable. The blockchain stocks were the hot new thing. The value of companies who simply mentioned the word “blockchain” in a press release would skyrocket. For example, a company named “Long Island

Iced Tea Corp.” (ticker: LTEA) changed their name to “Long Blockchain Corp.” (ticker: LBCC) and decided to shift their focus from beverages to blockchain technology. The stock ran nearly 500% in a single day (see Figure 3.2 below).



**Figure 3.2: Long Island Iced Tea Corp. (\$LTEA).** In 2017, the corporation rebranded as Long Blockchain Corp. (\$LBCC) as part of a corporate shift toward “exploration of and investment in opportunities that leverage the benefits of blockchain technology” and reported that they were exploring blockchain-related acquisitions.

Rational? No, but this was the theme at the time, as many blockchain stocks were experiencing similar moves. Many traders were victims of the cryptomania craze, investing perhaps a lifetime of savings into something for which they had developed absolutely no risk management plan.

A novice trader, with a feeling of missing out, will get slaughtered eventually. Don’t get me wrong. I am not against Bitcoin or

cryptocurrencies, nor do I believe that they have no intrinsic value. The blockchain may indeed one day revolutionize the financial market, but those prices back in 2017 were mostly speculative. There is nothing wrong with trading Bitcoin. A lot of money was to be made amid the volatility, but experienced traders knew they were trading only for the short term, and they had firm risk management rules in place. Experienced traders made their money, but never let a bad trade turn into a ticking time bomb inside of their accounts. We in the chatroom were making thousands of dollars daily on cryptocurrency-related stock such as Riot Blockchain, Inc. (ticker: RIOT), Xunlei Limited (ticker: XNET), Advanced Micro Devices, Inc. (ticker: AMD), and NVIDIA Corporation (ticker: NVDA). We made so much money on XNET that in the chatroom we referred to it as, “XNET, our good buddy.” I recall a period when Brian traded NVDA every single day for almost 6 months.

“Just after Christmas 2017, I received an email from a trader who I know for a fact is also a medical doctor. Let’s call him Trader MD. His email is reproduced as Figure 3.3 below. He emailed me, explained a trade that had gone bad, and asked for some advice:

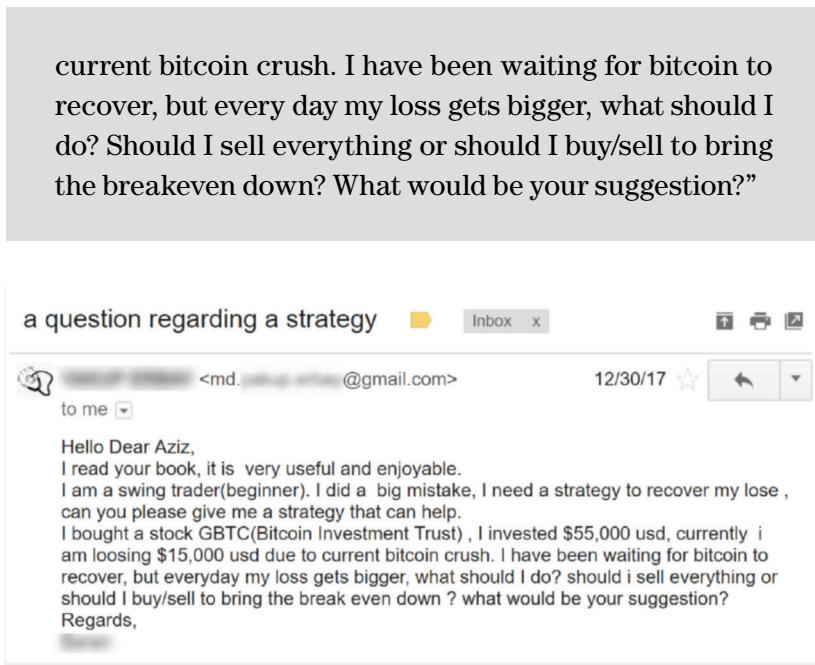


“

“Hello Dear Aziz,

“I read your book, it is very useful and enjoyable. I am a swing trader (beginner). I did a big mistake, I need a strategy to recover my loss, can you please give me a strategy that can help.

“I bought a stock GBTC (Bitcoin Investment Trust), I invested \$55,000, currently I am losing \$15,000 due to



**Figure 3.3: Trader MD's emailed questions.**

As explained above, back in December 2017, Bitcoin was being traded at up to around \$20,000. Grayscale Bitcoin Trust (ticker: GBTC), which is a Bitcoin Investment Trust, was being traded at an all-time high of around \$40. Figure 3.4 below is a daily chart for GBTC from this time frame.



**Figure 3.4: Daily chart showing price variations in Grayscale Bitcoin Trust (\$GBTC).**

Trader MD emailed me on December 30, 2017, so I assume he must have got into the trade at around those prices. “Bitcoin mania” burst in January 2018 and it dropped down to a low of about \$5,950 (on February 6, 2018). Accordingly, GBTC also dropped, from a high of \$40 to a low of around \$10, as GBTC essentially tracks the price of Bitcoin. At the time I am writing these sentences in October 2020, GBTC is being traded at around \$12.50. I sympathize with Trader MD, but he should have never let this happen in the first place. He did not have a proper risk management plan and ended up gambling his savings on GBTC.

When you enter a trade, no matter if it is a swing trade or a day trade, you need to define your entry, your exit and your stop loss. Every time you trade, you’re exposing yourself to the risk of losing money. How do you minimize that risk? A common reason for the failure of new traders is their inability to manage losses. Accepting profits is easy to do, but it is much more

difficult, especially for beginners, to overcome the temptation to wait for losing trades to return to the break-even point. Waiting for something that is not likely to happen can result in serious damage to your accounts, as I assume it did to Trader MD. You must define a proper entry, profit target and stop loss and then, if the trade goes against you, exit it. You are much more apt to manage your losses if you stick to your plan and under no circumstances risk more than 2% of your account with any trade. Bitcoin mania was a unique situation in 2017. People were looking at Twitter and other social media platforms, seeing that “everyone” was making money on Bitcoin except them, and they then sadly fell into the trap of FOMO.

Trader MD was one of them. He entered his trade based on FOMO, he had no plan, and he was desperate. But he was definitely not alone. Many ordinary investors were victims of 2017’s cryptomania, investing perhaps a lifetime of savings into something that they had developed absolutely no risk management plan for.

Although FOMO is very dangerous, it is actually also very easy, in theory at least, to avoid. You just need to ask yourself one simple question before entering any trade:



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**“What is my risk to reward in this trade?”**

If you cannot identify a good risk to reward, then it is a fear of missing out trade, and you should not take it. If you cannot determine a stop loss or profit target, then it is a trade based on FOMO, and you should not take it. Even if the anticipated trade ends up going in the direction you predicted, and you would have

made money if you had been in it, ignore it. Equally important, aside from ignoring it, do not blame yourself. Do not get into the habit of breaking risk to reward rules because the last time you stuck to your plan you missed a good move. There are many trading opportunities every day, so it is okay if you miss one. If you do not break your risk management rules, FOMO will never be a problem for you. Breaking risk management rules by doing a marginal cost analysis of “*just this once*” usually results in an unending stream of extenuating circumstances.

The marginal cost of breaking a rule “*just this once*” always seems to be negligible, but the full cost of it will often be *much* higher, and in trading it will almost always result in ending someone’s trading career. Yet, unconsciously, many traders employ the marginal cost doctrine in their trading. A voice in the trader’s head will say, “Look, I know that as a general rule I shouldn’t do this. But in this particular trade, just this once, let’s get in there. Let’s go for it!” The voice in their head will seem to be right, as the price of doing something wrong “*just this once*” usually appears seductively low. However, it suckers you in, and you don’t see where that path is ultimately headed or the full cost that the choice entails.

When I wanted to lose some weight, my personal trainer provided me with an excellent, easy-to-follow diet. He mainly cut sugar, white flour and simple carbohydrates from my diet and replaced them with healthy fats, protein and complex carbohydrates such as oatmeal and yams. It was a perfect diet. He also allowed me to have one “cheat meal” per week, on the day that I trained and ran the most. In the cheat meal, I was allowed to have whatever I wanted, including ice cream.

As much as that diet was beneficial to me, I could never follow it and stick to it. Every time I had my cheat meal, I was back into my old habit of craving sugar. It was basically an eating disorder, perhaps even a psychological disorder. Like an alcoholic on a

rehab program, it takes only one sip to get back into a bad habit. More people are addicted to food than to anything else. Sugar, oil and salt are the three most addictive chemicals humans have ever consumed. Is it any wonder that although potato chips and French fries are among the unhealthiest foods on the planet, millions of people are eating them every day? They are a drug on top of a drug on top of a drug: sugar covered with oil covered with salt.

I was wondering why I could not follow my diet, until I decided to remove the cheat meal from my diet plan. As soon as I did, I was able to follow the diet perfectly, and I shed the few extra pounds I was trying to lose before the summer. And here's the lesson I learned: it's easier to hold true to any principle 100 percent of the time than it is to hold true to it 98 percent of the time. The boundary is powerful because you just don't cross it; if you have justified crossing it once, there's nothing to stop you from doing so again and again. Similarly, in trading, getting into a trade just because someone else is trading it is usually a sign of FOMO.

Peter is a keen trader in our trading community. His story is a good summary of all that I have discussed thus far. I shared a few lines from his email at the beginning of this book. He wrote to me:



“

“Andrew,

I recently began trading cryptocurrencies and during one month I made \$70,000 and quickly proceeded to lose it all! At the time, the cryptocurrency market was undergoing exponential growth. Because the market was rising so rapidly, I believed that it was a rare opportunity to make profits quickly, and I didn't want to miss it. I knew all of

the rules of successful trading, but I decided to cast them aside for this ‘once in a lifetime’ market. Having heard of so many people making millions in Bitcoin, I believed I was late to the party and that I needed to act fast to realize these gains before the opportunity was gone.

I immediately began investing heavily. I started seeing early profits and saw this as confirmation that the market was only going one way, up! I soon began to ignore the principles of risk management and position sizing, and two negative habits occurred in my trading. I became frantic trying to catch every pop I could and I became greedy and started to feel invincible.

This had a huge effect on my decision-making.

A frantic approach is mentally exhausting. A tired mind leads to poor psychology and, in turn, poor decision-making. Greed is very dangerous for trading too. Greed makes traders only focus on the upside, on how much money they can make, and they fail to give any consideration to managing risk. So, when this situation occurs, the trader is not prepared for it at all. They hadn’t even considered it and because they’re still greed orientated when they begin seeing a loss, they hold onto the trade, waiting for it to turn into the winner they anticipated. This happened to me and the result is that my trading account took a \$50,000 hit, wiping out the majority of my profits in less than 48hrs.

Another element that was affecting my psychology was position sizing and risk management. Position sizing is important because it preserves your capital and allows you to continue trading a healthy account even if you have a few losses. But I would say an equally dangerous

factor is the impact inappropriate risk-taking has on your psychology. If you're exposed to a large amount of risk, you will experience a strong emotional response to every move the market makes. Whilst placing trades that put my entire account at risk, I experienced great emotional tides ranging from elation to sheer terror. My decisions were triggered by fear. I took profits too early, for fear they'd go away. I missed great trade opportunities because my 'all or nothing' position sizing philosophy left me terrified of entering a trade with such high risk.

To be successful in the market, you need to maintain a positive psychological outlook and remain objective. What the market does should not affect a trader's emotions or mood. Emotional content or 'mood' directly influences a trader's decision-making process. Decision-making needs to be based solely on market data, not on an emotional response to that data. If a trader's psychology gives rise to emotional decision-making, the trader's decisions become separated from market data and are based upon abstract emotional impulses. At this stage it just feels like gambling.

My psychology was wrong from the beginning and this is what led me to make bad decisions whilst trading. I believed the crypto market was a 'once in a lifetime opportunity' and that affected my emotional relationship with the market. However, I have since noted that the same scale of opportunity is present in all markets. I have since watched stocks increase 100% in a day, which before I thought was only happening in the cryptocurrency market. It's totally changed my perspective and shown me how inaccurate my trading beliefs were.

Now I focus on remaining objective. If a cryptocurrency or a stock increases 100% in a day, I practice having no

emotional response to that information. I practice thinking, 'Okay, so that stock went up 100%, is there an opportunity now,' rather than, 'How on earth did I miss that trade!' or 'I'm an idiot! I should have caught the whole move, it was on my watchlist!' Believe it or not, this was the kind of mental response I'd have before I started working on my trading psychology.

I've also changed my beliefs. I now believe that there is an infinite supply of opportunities. It doesn't matter if a market is skyrocketing, crashing or trading sideways. I don't need to be psychologically or emotionally affected by that information anymore because I'm always going to trade and there will always be endless opportunities. This belief is much more positive, it allows me to maintain focus on a never-ending stream of good trade opportunities, without any emotional response to throw me off of that pursuit.

Now I only risk up to 2% of my account on any one trade and I use appropriate position sizing. This enables me to maintain a positive psychology which in turn allows me to make good decisions. Each tick of the tape doesn't make me freak out, or the contrary, to become ecstatic that 'I'm making sooo much money!' So, the good decisions I now make are not based on emotion, instead they are rational and objective decisions based on market behavior and price activity. Now I can take losing trades without big emotional reactions, knowing that I'm trading long term, in a sustainable and profitable manner.

I've developed a belief system that the market provides endless opportunities and that anything can happen. Now that I believe anything can happen, I will not trade without defining my risk beforehand. Furthermore, I no

longer hold onto negative beliefs that will ruin good trading habits, such as the belief that I need to trade big before an opportunity goes away.”



## CHAPTER 4

# **PSYCHOLOGICAL SAFEGUARDS IN TRADING**

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In Chapter 3, we highlighted some psychological pitfalls of trading and illustrated them with real life stories. Similarly, in this chapter we will focus on the encouraging side of that same coin: the psychological safeguards that you as a trader can rely on to prevent potentially disastrous results. Again, firsthand accounts by traders are included. Both the pitfalls and the safeguards are, of course, dependent on your ability and willingness to utilize them.

As a new trader, you must remember that you are only one bad trade away from being kicked out of your business. You also need to remember that you are alone in your trading endeavors. If you are part of a trading community you will have support, but when all is said and done, you will still be the only person who has your back. In a civilized society, people protect one another, to at least some extent, from the consequences of their mistakes. In driving, people avoid hitting other cars even if they have the right of way. If a careless driver cuts in front of you on the highway, you may curse, but you will avoid the collision because you know it will be costly for you as well, even though you are not the one at fault. There is some protection available in almost every situation. Your friends, family or colleagues, or even your customers, may warn you when you behave badly or harmfully.

But there is no such protection in trading. When you chase a stock and buy at the worst possible high of the day, other traders will be rushing to sell their stocks to you. Your broker will immediately fill your order, charge you their commission, and run happily to their bank. Nobody will ask you why you are doing this, and nobody will warn you against it. Trading is one of the most dangerous human activities out there because there are endless opportunities to self-destruct.

Do not let one bad trade end your career in trading before it even starts.

As Dr. Brett Steenbarger once wrote:



“

“Position size limits, trading plans, and stop-loss levels are like snow tires on your vehicle: they may not seem to do a lot for you when things are going well, but they certainly help you deal with adverse conditions.”

## **SETTING DAILY PROFIT TARGETS / FINISHING YOUR DAY**

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As I was reflecting on what would be the most important topics to discuss in a book on trading psychology, I posted a question to our forum about why having a daily profit target is important. If it is true that the probability of each trade is independent of the previous trade, and you have a series of winning or losing trades, what are the chances that your next trade will depend on the outcome of your previous trades? The chances are: none. As we discussed in Chapter 1, trading is a business of probability. Your previous trades are statistically or stochastically independent of

your future trades because the occurrence of one does not affect the outcome of the other. It's just like throwing a die a few times in a row. The probability of seeing number 1 is always the same. With that said, traders who are successful but then keep trading often do end up losing money. This was always a mystery to me and I therefore posted a variation of this question to the Bear Bull Traders forum: "*Why should we walk away and stop trading after making some decent money?*"

A slightly tweaked version of my post and the responses to it follows:



“

“Why? I do not honestly 100% know what is the secret in it, but I found myself in my early stages of trading losing statistically significant sums of money after having reached my daily goal. What is the reason? I read about having a daily goal, but I never learned why.

Can you discuss this here? I would love to hear your stories and ideas. You might discuss anything you think is relevant, like:

1. You do not agree with it, and since each trade is independent of the others, in probability it should not have any effect.
2. Psychology plays a role: you look at your P&L more than focus on good trading.
3. It's the time of the day. As time goes by, the market gets choppier.
4. Anything and everything that comes to mind!

Please help me in this discussion, as I would like to include your feedback in my next book, which will be on trading psychology!

THANK YOU for being with Bear Bull Traders!"

I was thrilled with the responses I received. Thank you all!

The first post was from "Dread":

“

“While you need a stock that's moving, hence a volatile stock, that isn't the only criteria. Some stocks are heavily manipulated and some aren't. But the first hour and a half of the trading day are more consumer oriented and can be swayed somewhat. But the rest of the day is driven by institutions running computers with algorithms that have specific programmed agendas that you can't know. And if several of them work on a single stock, it's choppy and unpredictable. The most predictable time of the day is an hour to an hour and a half after the bell.”

Manuel added:

“

“I am sure that more than half of the days you keep trading after hitting your goal, you end up under your goal. So, that alone is why you shouldn't do it.”

“Sailaway” shared:

“

“I completely agree with Andrew’s philosophy of shutting down after reaching your profit goal. I, just like many others, have kept on trading after meeting my goal and ended up losing money. I think it’s human nature to continue doing something that you are doing good at. This stands for many things, like a game or solving a problem, you just want to keep doing it.

It’s not always your mind that is driving you to keep going, it’s the adrenaline, the thought of making more money and exceeding your goal, and that is all at your fingertips. This is why I feel Andrew is on the leading edge of teaching. This career is one that requires calmness and clear thinking, not inspirational decisions based on emotion. Only those who can stay in a calm state of mind and base their decisions on data and what they can have a reason for will be successful at this career (you should treat it as one in order to be serious about it).

I could be the poster child for this subject. I had lost a lot of money making inspirational decisions. Not proud of it but I lost over \$22,000 on the Chinese online entertainment and video-streaming service, iQIYI Inc. (ticker: IQ), it’s why I call it the DEVIL. I was a stubborn one, and couldn’t believe that it took me so long to learn my lesson, to shut down after I met my goal.

Since I have put the practice into action, my trading has been so much better and I have recouped my \$22,000 little by little. I know some lessons have to be experienced to

believe. Don't do that with this one. Just think if we all did what we were told without experimenting and finding out on our own, we, or at least I, would be so much better off."

"JB" posted:

“

"Personally, I have trouble stopping at times because I've had success making significantly more than my goal. So the thinking then is if I stop when I've 'only made \$500,' then how am I going to make that \$2,000 that I made the other day. I'm giving up a lot of upside by stopping at my goal...or so the thinking goes.

The counter to that is one day I kept trading because I had a very good read on a particular stock and racked up +\$3,000 after fees. Because I was trading so well, I continued and went on to give all of that back and end the day down \$2,000. So, did I really 'make \$3,000'? No, I lost \$2,000 because I didn't stop trading.

I'm still in the middle of developing a strategy to deal with this sort of thing, but what I'm leaning towards is a two-pronged approach. First, while individual daily PnL are important, I'm beginning to focus more on the week. I'd like to make \$500+ per day, so roughly \$2,500 per week. This week, I made roughly that amount on Monday and Tuesday, so my goal is to not jeopardize that for the rest of the week. If I hit my goal for that day I have to stop. I can't afford to turn a win into a loss because I'm looking at the week, not just the day. The second thing I'm

working on is that once I meet my goal for the day, if I choose to continue trading, then I have to cut back my sizes so as to not jeopardize profits already made. If I'm still trading well, I'm still making money, but if I revert to the mean, I'm losing less than I otherwise would.

I've been trading live for less than two months and have had good stretches (+\$7,000 over 10 straight green days) and really, really bad stretches (-\$12,000 over three days in one week, to give back all of my gains and then some). Right now, I'm pretty much right at break-even from when I started, and I'm tweaking my trading rules every few days as I learn more about how I'm trading and where my problem areas are, trying to limit the maximum losses, etc. Ultimately, it will be the psychology and my ability to formulate and follow rules that mitigate negative psychological tendencies that will determine how successful I am in the long run."

"Dr. J" shared the following thoughts with our community:

“

"I think having a profit target is important for a number of reasons. For myself these are:

**1. As with all strategies, [for each trading day] there must be entry and exit criteria.** You can adjust these up or down as you gain experience to better gauge how to best efficiently utilize entries and exits for your trading day, but once defined, these must be stuck to. It's just simple business principles and instills operational

excellence. [For each day of the week, successful businesspeople know when the best time to open their business is and when the best time to close it is. Trading is no different.]

**2. A series of consecutive wins may instill subconscious overconfidence.** This happens to me where I sometimes feel like I cannot make a mistake during that day...that is until I do. And then, when that happens, I want to earn back what I lost because ‘it’s mine.’ This type of thinking is what turns a profitable day into a loser. It happened to me before and sometimes still does, but with experience, I catch myself earlier, so when it happens now, I stop myself and walk away.

**3. DECISION FATIGUE.** I think this is probably the number one reason for myself. I feel like I am at my best in the early morning. Every decision can be made sharp and decisive. I am able to look at and process numerous variables. Over a dozen or more of these decisions under high stress conditions of trading, and your brain fatigues. Then you start being lazier on a subconscious level. This is when you make critical mistakes. For example, a few days ago I took a reversal on a strong bullish stock and made a rookie mistake of not checking 5-minute for engulfing (What the heck was I thinking? On a strong bullish stock?).

**4. Opportunities are limitless (in theory), but there is no need to take all of them.** One should take the highest probability ones with greatest returns. If one keeps trading, the number of top AAA opportunities dwindle and trades that you enter begin to drop in grade, setting up for a bad trade.”

“Ewill” posted the “*10 Best Reasons to Quit While Ahead*”. They’d be perfect for a revival of a David Letterman format late night TV show!

“The discussion is whether it is best to stop trading, even very early in the day, if you have made ‘your money’ (whatever that is for you). For me, a relative newbie (just went live 2 weeks ago after 8 months in the simulator), the answer is YES—better to stop. Here are my reasons why:

**10. Part of risk management**—Right there with setting stops (hard or mental) and putting controls on your account.

**9. Don’t let ‘trading’ become an ‘addiction.’** Keep it in moderation in your overall lifestyle.

**8. The mathematical laws of probability**—Even though every trade is independent, odds favor a neutral outcome over a lot of events.

7. Even if the mathematical odds mentioned in 8 are not activated, the psychological knowledge of this likelihood may play on you in the background of your mind.

**6. Time of day**—If you have made some money, some time has passed, and the longer you stay in, the more conditions change. So, whatever type of trade you like best will wane as time goes on and you will need to be thinking about a different strategy, which can be challenging and add to the likelihood of diminishing returns.

**5. If you do stay....**—It is very natural to want to have another good trade, and there is nothing wrong with staying, but if you do, make a change to your rules. For example, only take the very best setups, or for experimenting, switch to the simulator, or do NOT let yourself give back more than X percent of your gains (I suggest

10%). Then you can still walk away proud and yet have tried to improve on the already good situation.

**4. Helps you stay with A+ trades**—If you adopt the suggestions in #5, then you will only allow yourself to take A+ trades if you do stay because who wants to give back money? This general concept of cautious selection of trades will spread naturally into the times before you ‘make your money’—not just after you do it.

**3. Minimize self-loathing**—If you have not felt this after giving back what you worked so hard to earn, then you are not yet trading—even in the simulator. It is universal. But, it does not have to continue to happen. This mistake does not have to be repeated. Try walking away a couple of times with some good early profits and notice how good it feels for the rest of the day.

**2. More time to learn**—If you love trading, you probably also love reading about trading, watching videos about trading, thinking about trading strategies, etc. So, just because you have stopped trading for the day, does not mean you cannot be engaged in other exciting trading activities. Have time and better energy for your journal and other trader improvement activities.

AND, the number 1 reason to stop trading after making money is:

**1. RESPECT and PROTECT** your account and live to trade many more days.

Now, if I can only listen to myself....”

Leland responded to the amazing post “Dr. J” shared:

“

“All good points and thanks for the post! I think trading is at least 90/10 psychology to knowledge, possibly more. So, like the book ‘Trading in the Zone’ [an excellent book by the late Mark Douglas] says, the mental structure necessary to do well in this business usually comes as a result of several painful losses of equity. So, stopping at a profit target for the day would definitely be a key component of that. My take? Stopping trading once your target is hit (for me it’s 1%) is as intelligent as stopping once the maximum loss is hit for the day (also 1%). Do I follow this? Not always. Fear/greed are two emotions that still affect me.”

Duane posted a very detailed response to my query:

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“I think having a daily profit goal is incredibly important, not only for the obvious reasons of income to live on and invest further, but psychologically, it sets up a framework that minimizes risk and maximizes the chances of success. Assuming you have been successful at historically hitting your target profit, having one serves to set an attainable goal and, ultimately, a daily ‘reward.’ Conversely, consider the concept of ‘more.’ In our little monkey/reptile brains, ‘more’ acts like a short circuit

that can lead to illogical and impulsive actions. More is almost always perceived as better, at least on the surface, but it has a vague and nebulous value. More is always more. When you get more, you want what? MORE OF IT! In trading, this is a recipe for disaster, as the amount of risk is infinite and entails almost no chance of success. This of course is what we traders seek to reduce, not enhance. I'm no psychologist, so please pardon my rather primitive explanations below, and also, the following is ONLY my opinion and personal perspective on the topic.

We humans are reward- vs. threat-based creatures who despite different ways of going about it, are simply looking to have our needs met with as little exposure to risk as possible. Setting a daily goal accomplishes this through, first off, setting a benchmark at which (X) amount of daily profit meets whatever daily needs we require. You hit your goal, you get the dopamine reward, you've accomplished what you set out to do, life is good, right? So, why push it further, which simply invites risk and loss? Not only that, how many solid trades can you find in a day? To some extent, it's a numbers game, with the opportunity limited by our capacity to find the good ones. Also, in our heads, taking a loss after meeting a goal can feel far more devastating than simply having a loss/random difficult day. While this pain/anxiety is good in the sense that it is how we learn what NOT to do, how many times do you need to go through this to learn that it was NOT the right path to take? Again, setting up a rule that says, when I hit (X) dollars for the day, I walk away, creates the framework in which this risk is highly minimized.

Now, let's consider one possible scenario of what MIGHT go through the mind of a trader who does not set a daily

goal. He starts the day with the concept of some nebulous dollar figure in his head that has no upper limit. It's something unattainable. He has no goal other than 'MORE.' What is more? More is always more and you always want more of it because it is scarce and hard to come by. It's a bit like the idea of doing something you need to do, but saying you will do it tomorrow. Tomorrow often never comes, just like more is never enough. More is always more. It ultimately becomes greed, carelessness, and drastically clouds sound judgment. Setting a profit goal allows us to attain a finite, acceptable, and definite value of what 'more' is. I mean, it is more than you started with, right? I think most of us have noticed that, and I have for sure recognized, that the more you trade, the more chances there are of a loss, and possibly a big loss. And the worst feeling of all? Unnecessarily losing a previously attained 'reward,' which is something we all strive to avoid, so why do it? Psychologically, we are always scanning the horizon for the thing that will meet our needs. We scan endless candlestick patterns, our scanners, etc. Left unchecked, these 'needs' become exaggerated, endless, and grow into expectations we will never meet, and hence, create disappointment and end in failure.

So, let's break this down into the base psychological components. Rewards drive us to do the things we do (rewards being the serotonin, dopamine, oxytocin, etc. released in our brains when we do something positive towards our survival). These chemical responses are incredibly short-lived, which drives us to continue to seek them and, hence, repeat previously successful behavior in order to get yet another 'reward/winning trade.' Over time, we come to expect these rewards and,

along the way, we learn how to best attain them. Creating these behaviors takes time as the brain adjusts to them. Positive change is always difficult, a bit painful, and never comes fast enough as it MUST be repeatable over time, however, it is a critical component to our survival/trading success. We need to do it over and over again for it to become a learned and natural response that we can then do without expending much effort. Applied to day trading, setting a daily goal sets a baseline that at the fundamental level accomplishes 2 things we all seek: meeting a need/reward/feeling good, that is repeatable as often as possible, and minimizing the threat/risk of loss. A daily profit target is a line in the sand that says, ‘This is a goal I can hit daily, with the maximum amount of success, while still meeting some external financial need with the minimal amount of financial risk of loss.’ Basically, a profit target is an optimal balance of practical need, reward, effort, and risk aversion.

The other side of the equation is threat (risk/anxiety/pain), the 2nd primary driver of our actions. Think back to a time when you ended a trading day with a large loss. Think about how you felt then, and how it makes you feel now. Now do the same exercise and think back to a time when you had a highly profitable trading day. Which experience do you recall with more intensity and emotion? If you are like most of us, the loss will trigger the stronger emotion as it has made a larger impact on your psyche and is more committed to memory. This makes sense because our ultimate goal is survival, and despite our technology, glitz, glamour, and advancement, our base brain, the limbic system (sort of like the little lizard part of our brain), is still driven by the same

primary survival-driven goals as our ancient ancestors were. We subconsciously see a losing trade as a threat to our existence regardless of what our HUGE cerebral cortex says. In nature, rewards and acts of survival are continually necessary and short-lived, and while you may not reach every reward you seek, you usually still live to fight another day. With threats however, one is enough to mean that no, you don't live to fight another day. A trading loss has this same psychological effects on us, which is why they are so much more intense than the short-lived pleasure responses we get from meeting a small goal. Given you only survive so many threats, if at all, the memory of such events creates a more intense response.

Now, bringing this back to trading and applying the same concepts, this is why listening to your gut is so important, and why a daily profit is such a critical tool to ultimate success. A single bad loss has the intensity of five nice profits. We humans are the only creatures that can make a single mistake yet relive it over, and over, and over again, sometimes for our entire lives. As traders, we need to accurately assess risk vs. reward with a clear head. Allowing anxiety to cloud our judgment through experiencing excess and repeated losses is entirely detrimental to our success, confidence, decision-making, emotional well-being, etc. So again, setting a daily profit that maximizes the probability of maximum repeated success over time with minimized risk is more than just financial protection, it is psychological protection. It creates a psychological environment where we make the most of positive reinforcement, all the while learning the most we can from a minimized number of risks and losses.

Now granted, a set profit target will be fluid over time, not static, and will increase as our skills grow, which is truly the beauty of the way the mind/brain works and why I find understanding these concepts is beneficial to advancing the very complex skill of day trading. While this explanation may seem rather tedious, which it can be, I truly believe that understanding these primary drivers as they apply to not only trading, but life in general, gives us control over outcomes and truly puts us in the driver's seat of our actions, emotions, and ultimate success.

Now, aside from the goal of making money, which is why we do this to a large extent, setting an attainable daily profit provides value beyond the simple matter of providing income to meet our need for resources. For me personally, the way my trading day ends sets the tone for the rest of the day, for either good or bad. For those of us on the West Coast at least, day trading is the first thing we do on a weekday. When I have profitable mornings, I'm left with a feeling of accomplishment and financial security that colors how I perceive the rest of the day, and in the best way possible. More than that, when the next trading day starts, I recall the previous day's success. I start the morning trading with confidence, optimism, and a positive outlook. I'm better able to pick out good trades and execute them efficiently. Success breeds more of the same. It's a vicious cycle of achievement we all strive for.

Now, when I end the morning with a loss, it's very easy to brood about it, for ending with a loss sets a far less desirable tone for the day. Even more detrimental is that the next trading day can also be colored by the previous day's loss. I may start the day with a feeling of anxiety,

fear, and apprehension, which ultimately clouds my judgment and successful trading becomes inhibited, something no trader wants.

So, to put some perspective on this, on days that started with hitting my profit goal, I'm not thinking for the remainder of the day, 'Oh, I COULD have made \$750 instead of my daily \$500 goal.' I'm thinking, 'Hey, I had a profitable trading day, and that's enough.' There will always be money left on the table to some extent, and as psychologically healthy traders, we need to be okay with that. As Andrew always says, 'DON'T CHASE IT!' Ultimately, we are all seeking happiness. If setting and reaching a reasonable daily profit goal can provide this on a near daily basis, why would you NOT do it?

Bottom line is this, money is simply a means to an end, there is never 'enough' of it. Even many billionaires continually seek more of it, yet are they really any happier than the man who sets realistic expectations, has his basic needs met and experiences many small rewards over the course of the day vs. the billionaire who continually has to seek ever larger and even harder to attain rewards for the same chemical reward response in his brain? I believe the former has the more desirable life. Almost no one is going to make so much money in a short period of trading that you can take the rest of your life off, so why NOT set a daily profit goal and then go on to enjoy the rest of your day with a sense of accomplishment and well-being vs. not having a set goal and chasing that ever elusive and never-ending psychological rabbit hole of 'more'? As traders, we have a huge number of tools in our arsenals to achieve success and I believe a profit target is a critical factor in the pursuit of that goal."

The contribution of Peter to this thread included some rules he forces himself to follow each and every trading day:

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“I believe the objective of all trading rules is to manage risk. As such, daily targets are important, but only insofar as they help the trader manage their risk profile. I will state up front, however, that I very firmly believe that a daily target should not be solely (nor primarily) profit based.

On any successful trade, I think we can all agree that you would never completely exit a trade just because you've made 'too much' money. However, smart trade management tells you that you should scale out of a successful trade to lock in profits and manage downside risk. You should also move your stop loss point, as appropriate, to avoid profit slippage on any shares you still carry. And eventually, you will exit the trade when the technical indicators dictate...and not(!) based on your achieved P&L.

Likewise, I think traders should set a daily target. Not to specifically tell you when to stop trading, but to set a risk parameter that will allow you to reduce downside risk.

Personally, here's how I do it. Before each trading day, I set my daily trading target along with my maximum loss target for the day and my maximum loss per trade. For illustration, let's assume those values are as follows:

- Daily profit target: \$500
- Maximum daily loss: \$300

- Maximum loss per trade: \$100
- Minimum per trade risk-to-reward ratio: 1:2\*

\* note that this value rarely changes

This tells me that on this day, I cannot, at any point in time, have more than 3 more losing trades than I have winning trades or I will hit my maximum loss and have to stop trading. The daily maximum loss is unalterable once set. No exceptions. However, the daily profit target is a guideline only, and here's the rules I use to manage my risk:

1. Throughout the day (approximately hourly), I self-assess on how tired I am. If at any point I determine I am too tired to be effective, I will force myself to stop trading, no matter the time of day or what profit level I am at. This, of course, is much easier said than done. But, through years of practice, I have gotten very good at self-regulation and I am able to put down my tools and stop trading.
2. Equally, I will also assess how distracted I am. If at any point I determine I have become distracted from the markets for any reason (emails, family, the chatroom, YouTube(!), etc.), and I am not 'in the zone' for trading, I will take a forced break of a minimum of 10 minutes (up to 2 hours), depending on the situation and time of day. I will then re-assess whether I can, and am willing(!), to re-focus on the markets to make some successful trades. If not, my trading day is done. If I am good to go, I will look at my P&L. If I am over my daily target, then I will not re-enter the market. If I am red, but not at maximum loss, I will stop trading. If I am green, but below my target, I will consider resuming trading. My reasoning for this is that if I allowed myself to get distracted once today, it's more likely to happen again if I am over target

and feeling comfortable than if I still need to hustle to hit my goal. If I am red and got distracted, then I am obviously not in the game and any continuation of my trading will very likely lead to me hitting maximum loss.

3. If I am over my target, but not more than 1 loss over (i.e., between \$500-600), then I will reduce my trade size by 50% until: a) I have achieved a profit of more than \$600, where I can then return to full trade size, if I like, or b) my profit dips below \$500 and I must stop trading, or c) I remain between \$500-600 through 2 more trades, when I will also then require myself to stop trading, as my trades are obviously not achieving their individual risk-to-reward targets.

4. If I am over my target of \$500 but not yet at 2x my target (i.e., \$1,000 in this example), then I can continue to trade until either: a) I have 2 consecutive losses, or b) I come within 1 loss (i.e., \$100) of my \$500 initial target. In either case, I must stop trading immediately.

5. If I have had an exceptional day and am more than 2x my target, then I allow myself to risk any amount over \$1,000, if I feel like it. However, note that based on my fixed daily rules, I must still NEVER exceed my maximum loss (risk) per trade of \$100. If I slide under \$1100 (i.e., less than 1 loss away from 2x target), then I must stop trading immediately.

The above rules cover most scenarios. I hope this wasn't too convoluted. It makes perfect sense to me, and because I have been applying them for so long, I am able to assess the above rules in seconds throughout the day, almost automatically. However, I know they might seem complex, especially when seeing them for the first time.

At the outset of this post, I mentioned that I believe targets should not solely be profit based. Embedded in the above rules are my personal ‘targets’ on effectiveness, focus, risk, and fun! Yes, fun! Rule 5 is completely fun based. I allow myself to play with any ‘extra’ money, if I so choose. If that day it feels more fun to keep the money than to trade it, I will. However, if it’ll be more fun to keep trading, I can...as long as I stick within my rules, thus limiting my risk exposure.

Also note that rules 1 and 2 are done hourly throughout the day, irrespective of my P&L. They precede any consideration for how profitable I am on the day.”

## **BOUNCING BACK FROM A TRADING SLUMP**

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Most weeks, Mike and I both receive several emails from traders asking for suggestions to improve their trading performance. Some of them are traders from Bear Bull Traders or Peak Capital Trading whom we have known for a while, and some are emails from unknown traders. To support them, we need to first identify their issues. Going into a doctor’s office and saying that “I am not feeling well” is not enough. The doctor needs to examine you, review your symptoms, and at times has to arrange additional tests and screenings. The doctor is thorough, careful and patient in checking you out. Likewise, “my trading needs help” usually is not enough for us, as trading mentors, to assist the person reaching out. Either a trader must have fully documented their predicament before asking for help, or we will have quite a few questions to ask in order to get to the bottom of their issue.

We understand that every trader will experience some rough days. It’s the so-called nature of the game. Abiel, one of our

long-standing traders in the community, posted to our forum the following after a particularly difficult week. As an aside, in case you are not familiar with their names, the two people quoted in this article are both American baseball players, and the author has included some references to baseball “lingo” throughout. With that out of the way, here’s Abiel’s post:

“

“The week just finished was rough, and some Bear Bull Traders members were hit by the market. I just read this article in today’s StockTwits newsletter, good reading for everyone:

‘Insights into Breaking a Trading Slump,’ by Ross Heart  
‘Ever been in a slump? A bad one – a really bad one? If you’ve invested in the markets for an extended period of time, you likely have had a trading slump or two. There’s no way around it and despite its discomfort, trading slumps are an inevitable component of investing. Eventually everybody gets stung and regardless the systems, process, and disciplines that traders (or investors) follow, strategies are not infallible, and stretches will invariably pop-up out of nowhere where you can’t seem to buy a hit... the dreaded trading slump.

‘Whether I was in a slump or feeling badly or having trouble off the field, the only thing to do was keep swinging.’ ~ Henry Aaron

If you’ve found yourself in this situation the first thing you need to do is acknowledge the trading slump, and immediately determine the overriding goal is to simply get through it as unscathed as possible.

Second, try to define the nature of the slump you're currently in. Are you missing opportunities? Are current positions not working and giving you fits? Do you find yourself missing major moves? Are you deviating from your normal processes? Or are you the proverbial deer in the headlights and too frozen to act?

Every situation (and person) is different, but once you've acknowledged the trading slump and defined its nature, I would suggest not disengaging from the markets. As tough as this may be, try to keep yourself involved, but definitely try not to press. Sidenote: I would overwhelmingly encourage you to disengage from individuals and commentary that appear to be endlessly right about everything. These people add nothing more than frustration, and frankly, they may likely struggle the most when tides turn.

Staying involved and abreast of the markets, however, does not mean taking a couple extra hours of batting practice in the cage. Trading slumps are mental, so try to increase breaks, walks, naps, exercise and other stress reducers in an effort to allow your inner pressures to subside and your subconscious mind to strengthen. Re-developing the confidence and level-headedness needed to deal with volatile markets on a day-in day-out basis will likely take some time. Remember that patience is your friend.

Start to go back and examine stretches in a trading journal where you ripped the cover off the ball, and try to recapture your state of mind. Re-read classic investing books and understand how and why Hall-of-Fame investors have gotten to where they are. An over-riding and underlying message that you'll likely reacquaint yourself with is that frankly, there are no easy answers.

Hank Aaron's quote may not translate perfectly to investing – you don't receive an unlimited number of at bats but you can wait much, much longer for the really fat pitch. The important message though is that slumps are merely a natural part of the game. Ironman Cal Ripken Jr. once played on a team that started a season 0-21, and also endured a painful 1992 season, in which he batted .190 over a 73-game homer-less streak. I'm guessing the key for Ripken was similar to a slumping investor – show up every day and grind it out with that underlining goal of merely getting through.'"

## **LEARNING WHO IS BEHIND THE PRICE OF A STOCK**

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A member of our trading community, Jimmy H, shared the following insight on our forum:



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“Hi all, today I had a huge realization regarding what day trading is about. I want to write it down here as a self-reminder.

There are two parts to being a consistent and profitable trader:

- Being profitable requires you to nail at recognizing patterns. For example, certain patterns are a bullish sign, ABCD, ORBU [Opening Range Breakup], Fallen Angel, etc. Bullish patterns historically have more

than a 50% chance of going up, but with every entry you make, you are still betting on a chance. A pattern that has a higher chance of going up doesn't always turn out that way, and that's why you lose a trade. Most traders focus their energy on trying to nail the pattern; some traders religiously abide by only trading certain criteria. They no longer just look at the definition of the pattern, they also look at fundamentals, RSI [Relative Strength Index], support/resistance lines, etc. They try to study the market the best they can before making an entry, only to be left shocked at losing their trade after all of their preparation and studies. Even the most seasoned of traders know that nailing more than half of all trades is extremely difficult. If you can nail 60-70% of all of your trades, you are legendary. So, by playing the pattern game, one can be profitable, one might even score a jackpot on one single trade, but in the long run, one just cannot be consistently profitable because he/she is trying to study their way to beat the market, and no one has done that.

I am not downplaying the importance of studying the market and patterns, but I believe it is only part A of the game. So how can a trader, even with the best patterns and studies, consistently profit by winning about 50% of their trades? Some naysayers will say it is a zero-sum game. The devil lies in the winning ratio, and this is what part B of the game is all about. Sometimes people call it risk management.

Traders are different from casino gamblers in that traders can choose how much they want to win and how much they lose. For every entry you make, you need to at

least have a 2:1 risk ratio in mind to come out ahead in the long run. Since a good trader can only nail 50% of their trades, we might as well assume that with every trade you make you will have a 50% chance of winning (this is after you already have done your pattern studies). If your bet is a 2:1 risk ratio ( $[2 \times 0.5] - [1 \times 0.5] = 0.5$ ), the probability that you come out ahead is positive. If you make 100 trades at a 2:1 risk ratio in a week, you earn \$50 at the end of the week. Of course, this changes when you change the ratio—the higher the better. If one strictly abides by the ratio when entering a trade, it becomes how well you can execute that ratio.

If you set a 2:1 ratio, not all people will take the profit when it hits 2, nor do they respect their stop loss when they lose that 1. So they end up losing more and more. If you trust in probability, you should realize that it is greed/fear that is prohibiting you from earning \$50 at the end of the week. So it is a great incentive to put your emotions aside and not let your emotions control the outcome of even one single trade. Why? Because being a consistently profitable day trader is not about how well you nail a single trade, it is about how well you execute every single time on a profitable ratio. If you are successful at that, you will come out profitable at the end of the day.”

I asked Casey, a 20-year veteran trader in our chatroom, about what he has observed to be associated with successful traders over the years. He wrote back to me:



“

“Hi Andrew,

Here are some of the things that I've observed to be associated with successful traders.

- They can translate the market information into the likely thoughts and positions of the people they are trading against.
- They don't care too much about what other people think of their trades.
- They are able to quickly switch their bias from long to short. In other words, they don't have a bias, they just see things for how they really are.
- They are able to recover from losing streaks by refocusing (unlike losing traders who generally lose more when they try and recover).
- They tend to have a periodic self-review process. Every trader knows that they should keep a journal, but winning traders generally actually want to keep a journal.

Good luck with the book, I really enjoyed the first one.”

As I read Casey's email, I found myself nodding in agreement to each of his points, and in particular to the one highlighting the fact that successful traders can translate market information into the likely thoughts and positions of the people they are trading

against. If there is such a thing as a secret weapon in technical analyses, this is it. The goal of a successful day trader is to discover the balance of power between the buyers and the sellers and then bet on the winning group. Fortunately, candlestick charts and price action reflect the mass psychology of all traders at any given moment. They reflect the fight underway between the buyers and the sellers. A successful day trader is a social psychologist with a computer and charting software. Day trading is the study of mass psychology.

Every trading strategy essentially operates on one of two principles: it is effective for either a long squeeze or a short squeeze. In a short squeeze, the buyers take control of the price and force the short sellers to cover their shorts in order to cut their losses. A short squeeze is a battle lost to the buyers. With your long position, you ride the momentum with the buyers and force the short sellers to cover faster. A long squeeze, on the other hand, is a battle that the buyers have lost to the sellers. It unfolds when the traders or investors holding long positions feel the need to sell into a falling market in order to cut their losses and push the price lower. Stop losses are being hit, and long traders get stopped out. Whenever you take a trade to the long side, you should ask yourself a few questions. What are the short sellers thinking? Are they covering? Or are they having no problem adding to their position? Similarly, when you sell short, you should think about your opponents. What would you do in that position if you were long?

There are basically three categories of traders: the buyers, the sellers, and the undecided. The buyers can also be short sellers who plan to cover their shorts and typically want to pay as little as possible, while the sellers or short sellers want to sell as high as possible. The presence of undecided traders puts pressure on buyers (bulls) and sellers (bears). The buyers and sellers are afraid of the undecided traders waiting in the background, who could suddenly appear and take their deals. If the buyers wait too long to decide on a trade, someone else could

beat them to it and drive up the price. The sellers who wait too long for a higher price might be thwarted by other traders who sell at lower asks and thus drive down the price. Their ongoing awareness of the presence of undecided traders makes the buyers and sellers more willing to trade with each other.

Buyers are buying because they expect that prices will go up. Buying by bulls pushes the market up, or, as I like to phrase it, “Buyers are in control.” The result is that buyers are willing to pay higher and higher prices and to bid on top of each other. They are apprehensive that they will end up paying higher prices if they don’t buy now. Undecided traders accelerate price increases by creating a feeling of urgency among the buyers, who then buy quickly and cause prices to go higher.

Sellers are selling because they expect that prices will go down. Selling by bears pushes the market down, or, as I like to express it, “Sellers are in control.” The result is that sellers are willing to accept lower and lower prices. They are apprehensive that they may not be able to sell any higher and will end up selling at even lower prices if they miss selling now. Undecided traders make prices decrease faster by creating a sense of urgency among the sellers. They rush to sell and push the prices lower.

As I suggested a couple of pages earlier, the goal of a successful day trader is to discover the balance of power between the buyers and the sellers and then bet on the winning group.

Candlestick patterns tell us a great deal about the general trend of a stock and the power of buyers or sellers in the market. Candles are always born neutral. After birth, they can grow to become either bearish, bullish or, on rare occasions, neither. When a candle is born, traders do not know what it will become. They may speculate but they do not truly know what a candle is until it dies (closes). After a candle is born, the battle begins. The bulls and the bears fight it out, and the candle displays who is winning. If buyers are in control, you will see the candle move up and form a bullish candle. If sellers are in control of the price,

you will see the candle move down and become a bearish candle. You may be thinking that this is all very obvious, but many traders don't see candles as a fight between buyers and sellers. That little candle is an excellent indicator to tell you who is currently winning the battle, the bulls (buyers) or the bears (sellers).

An example of this evaluation can be seen in Figure 4.1 below, where I discuss a trade that I took on Apple Inc. (ticker: AAPL), and a trade that I identified and mentioned in the chat, but unfortunately did not take.



Figure 4.1: Trading on Apple Inc. (\$AAPL) on May 2, 2018 plus a screenshot showing my profit for the day (only 35 minutes after the markets opened).

On May 2, 2018, AAPL was a Stock in Play after the release of a good earnings report. It gapped up in the pre-market but started selling off at the Open. I took the trade short on an Opening Range Breakdown from \$174.70 to \$173.80 for a nice profit of almost \$300. However, I realized that although AAPL was constantly trying to break the \$174 level, it kept being bought back up. I mentioned in the chat that this was a bullish sign and it would be best if traders did not go short anymore. As you can see, at 9:50 a.m. AAPL gained strength, squeezed all of the shorts, and ripped higher toward \$176.60. It's important to note that my suggestion in chat was based on my observation of the three 5-minute Doji candlesticks (called hammer Dojis in this instance) which formed after the Open. These three candlesticks demonstrated to me that AAPL was no longer a short, and at any time you could expect it to squeeze above VWAP (Volume Weighted Average Price), as it did. At the risk of being too repetitive, I will repeat a key takeaway for this section of the book: candlesticks and candlestick patterns can tell you much about the general trend of a stock. Reading and interpreting them properly is a very valuable skill in day trading.

## **ESTABLISHING CLEAR AND DEFINITE RULES**

As we mentioned in Chapter 2, once during an interview before a boxing match, heavyweight champion Mike Tyson quipped, "*Everyone has a plan until they get punched in the mouth.*"

There's wisdom in those words. Having a plan – having clear and definite rules—must be an essential part of every trader's game plan. But merely having a plan is not enough. In order to be a successful trader, you must not just have clearly understandable rules neatly handwritten or typed out on a piece of paper, you must also be ready to firmly implement them in any and all

situations that you find yourself in. While the rules should cover everything from risk management to psychological and behavioral performance, the best rules in the world are useless if you are not able to follow them at crunch time.

I've previously shared in this book some of Matt's thoughts. Matt is a veteran trader in our community who over time has developed certain trading rules for himself. He's taken the process one step further though. He has not just developed trading rules, he has posted brief phrases on his monitors in order to help him remember them. As you read what follows from Matt, please note that he calls them "strict rules." They're not suggestions. They're not "I'll try my best to follow them most of the time" type of rules. They are strict rules to be followed at all times.

“

“Andrew;

First, I just wanted to say that joining your chat room is the best thing I've done for my trading career outside of reading your first book. Thank you for building a community where everyone shares their ideas and it isn't all about pump and dump like so many other chat rooms. I have a few things to share as far as psychology of trading.

I found that I needed to set strict rules for myself and write them down. These rules are posted on my monitors as a phrase to remind me of the rules. They tend to be short, but they are visual reminders of things I do, and do not want to be doing.

They are things like:

‘Don't chase; see the entry.’ (When I chase, I lose.)

‘5 Minutes.’ (I had to set a rule to not trade in the first 5 minutes, I find I chased a lot and ended up with losses.)

‘What is the pattern?’ (If I can’t verbally say what I am seeing, like “Bull Flag”, it probably isn’t there.)

‘Don’t Average Down.’ (This one I had a real problem with, originally I would fight the trend and keep averaging down, problem is I kept lucking out. Gambling paid off. Until it didn’t, and I took a huge loss.)

‘STOPS!!!’ (This goes with the ‘Don’t Average Down.’ Before entering in a trade, I want to know where my stop is, and where my target profit is, if I can’t define that, I don’t trade.)

Having these on sticky notes visually reminds me to follow my process, my rules, and from that I’ve become a more profitable trader.”

Michael, a firefighter and trader, included in his submission for this book a comparison between trading and firefighting:

“

“What I’ve experienced:

I am a professional firefighter. It’s normal for me to be in high stress, emergency situations. There was a small learning curve to keep myself calm, but I feel like that’s been an innate part of me. There’s other guys I work with that get amped up in those high stress situations and it shows. They tend to make more easily preventable

mistakes. They know better, but their emotions take over and fog their judgment. There are obviously many differences between trading and walking into a burning building, but it's shocking how my body initially processed them the exact same way. I'll never forget how my heart would race as I sat in front of my computer and clicked a button to transmit my order; my heart felt like it was going to beat out of my chest. I wouldn't even be making or losing any money and my emotions clearly were acting out. What would they do when I start to take profit, or worse yet, be in a losing trade? That's when the mind starts racing. 'Do I let it ride, do I take profit now...or now? It may go down to this technical level, but if I drop my stop to the next one, it'll surely pivot.'

These types of thoughts race through our minds. It's an absolute necessity to suppress those thoughts and follow a set of simple, black and white rules that we establish prior to entry. And when we're in that gray area that we don't have a rule for, we need to make that split-second decision. We are faced with those so frequently. If you can't make a justifiable, intentional decision right away, you'd be smart to paper trade until you can establish that skill, which is an ever-evolving skill. You need to be able to use your mind to make those decisions, not your emotions.

Back to the firefighting/trading comparison: I got more amped up sitting at a desk, clicking my mouse to submit an order, than I would walking into a burning building. As unbelievable as that sounds, it's true. If I was not able to suppress that feeling, there's no doubt in my mind that I would not have a chance at being successful. My first time arriving on the scene of a fire was very similar to my first day trade.

I have black and white rules that I know to follow, but it's when I deviate from those rules that I trade poorly. That's the result of my emotions fogging my judgment, just like the firefighters that I work with that make mistakes that if they were to look back at, they'd have no idea how they made them. If we can limit or even get rid of those emotional decisions, we have such a better chance at succeeding. Like you talk about, Andrew, not trading our P&L, but sticking with the technical. We must be capable of controlling our emotions. Paper trading helped me, but being in the market with my own money is what helped the most. I started trading with 25 shares. Gaining and losing a very small amount at a time. Just getting exposure in the market and experiencing these wild feelings, emotions, and thoughts that I hadn't experienced before. It blows my mind that people jump right into trading with thousands of shares. In my humble opinion, there's absolutely no reason for that. That one simple rule of limiting your share size will prevent every beginner trader from blowing through their account and having to make the decision to refund it or not.

Losing streaks can also wreak havoc on your mind and emotions. If a losing trade affects your mood for the day, either day trading is not for you, or I feel sorry for your colleagues. Now, not sticking to your plan can and should make you upset and you'd be wise to learn from those errors, but losing trades is a part of the game. The casino loses plenty of times, but over time they have a slight edge with probabilities and risk so they're consistently going to be profitable over time. That's how a successful day trading plan will work. Short term, you will have plenty of ups and downs, but over time, if you're successfully managing your risk, you should be profitable.

For me, a consistent morning routine is critical. It takes the guessing out and you will be able to ‘get in your groove’ with time. My trading mornings all start out the same.”

David wrote:

“

“To remind myself of the hard lessons I learned over the past year, I keep a reference sheet right in the center of my trading desk. On it, in a large font, read 5 bullet points that I must adhere to before each trade. These are:

1. Identify pattern
2. Assess risk/reward
3. Check spread
4. Verify volume
5. Act without hesitation

My trading has improved immensely by practicing these tenets on each trade and I feel I am close to becoming a consistent trader. The mental side of trading I have learned oddly has a great deal of influence over how the technical data that traders are bombarded with is perceived. That aspect I am working hard on improving and I still look forward to the journey.”

One of our members, Allen, put together an incredible list of daily affirmations based on his readings and studying. They are an excellent summary of many of the principles I so strongly believe in and have tried to convey in my various learning

resources. There's much wisdom in what follows. Please take the time to thoughtfully read through this list that Allen posted to our forum:

“

“Hi all, I'm new to day trading stocks, but have been trading cryptocurrencies for about 4 months. I've found that going through daily affirmations before I start my trading day helps to keep me focused and remind me of how I need to think and behave while I trade, and I wanted to share them with you all. I built this originally with the outline from 'Trading in the Zone,' and I have added maxims from Andrew's book as well as things I found I need to work on. Please feel free to post your own affirmations, would love to add to mine as it is constantly evolving!

[An aside from Andrew and Mike: Just before you read Allen's list of daily affirmations, we wanted to repeat our earlier comment that *Trading in the Zone* is an excellent book by the late Mark Douglas. It is a classic in trading psychology. The audiobook is also outstanding. The narrator for the version Andrew has is Walter Dixon, and Andrew fell in love with his voice!]

“I am a *Calm, Disciplined, and Consistently Successful Trader.*

I objectively identify my edges and strategies and master them.

I will stick to a single strategy until I have mastered it.

I will define each strategy in great detail with if-then statements.

I will act without emotion, and listen to what the charts are telling me.

Trading is a game of probabilities, and my edge gives me the house advantage, I just need to play long enough to reap the rewards. A strong system may only give me a 60% chance of winning, which are great odds over the long term.

I will only use tips from others as a starting point for my own research and will decide for myself if the conditions are met for a trade.

I do not confuse brains for a bull market. I must be very careful in who I choose to follow.

I predefine the risk of every trade.

I will not enter a trade without having a clearly defined plan on how to exit if I get stopped out and on how to take profits.

I will not chase a trade. If I have missed the entry point, that trade is gone, and I will look for another opportunity.

I completely accept the risk or I am willing to let the trade pass.

I accept that in the market, anything can happen.

I will never blame the market. The market is king and does what it wants to do. I just have to get better at listening, so I can go along for the ride.

It only takes one person to move the chart in a certain direction, breaking support or resistance and potentially invalidating my trade.

The market is very often manipulated, but if I play my cards right and stick to my system and track the path of least resistance, I can still win in the long run.

I am 100% responsible for the outcome of my trading.

Capital Preservation is more important than Capital Gain.  
I will not risk more than 2% of my capital on any trade.

I will always miss out on trades, but there will always be others, because I'm in it for the long run.

Not taking a position is often the best position to take. I will only enter a trade if the odds are greatly in my favor.

I will exit the trade if the trade turns against me in accordance to my exit and stop loss strategy.

My goal is to make money and manage risk, not to be right.

I act on my edges without reservation or hesitation.

I will enter a trade only when all of the conditions are met, with a profit to loss ratio of AT LEAST 2:1.

I will not act emotionally, but calmly and rationally at all times. It is all practice.

I will only trade when I am in the right state of mind to trade. If I am feeling down or depressed or overly euphoric, I need to step away and recover.

I will follow my plan throughout the trade and only readjust if there is significant new data. I will not panic sell or act emotionally, and realize that the market can often retrace against me before moving towards my targets.

I recognize that sometimes I must 'pay to see the flop' (see if it moves in favor of my position) instead of exiting a position too early, as long as it is within my defined strategy.

I pay myself as the market makes money available to me. I will take profits and not be overly greedy, which may result in me giving back those gains.

I will let my profits run cautiously, being sure to take back some gains first, scaling back slowly and moving my stop loss to ensure profits.

Once I have hit my profit targets or have hit my maximum loss, I will stop trading, or trade exclusively in a simulator, so I do not give back those gains or garner more losses.

I continually monitor my susceptibility for making errors and being emotional.

I will accept my losses as lessons learned, be thankful I was able to learn the lesson, and move on.

I recognize that any loss is gone forever, and I can only look towards the next trade. I will not and cannot make back the money I lost on the trade.

If I act emotionally to a loss, I will accept that as well, and then remove that emotion so that I can learn from it.

I will be happy as long as I have executed my trade plan as I laid it out, regardless of whether I made money on the trade.

I will reflect on my trades on a daily basis in order to learn lessons and improve each day.

I will not let other people's gains or losses affect my emotions and trading. I feel no need to be better or more right than anyone else, and I am not affected by FOMO [fear of missing out].

I accept that my mind will try to avoid doing things or try to distract me in order to avoid pain, and that I will identify and eliminate any reason for reacting this way, so I can do what must be done.

I understand that as a Professional Trader I have to do things that are boring, such as journaling and strict trade management, in order to improve my understanding and my odds.

I will identify all of the things that my mind will try to do to distract me (Reddit, news, chatting, food, videos), and I will address the source of those emotions directly.

I will act with Discipline and Professionalism at all times, because this is a Professional Game that needs to be respected.

I understand the absolute necessity of these principles of consistent success and thus never violate them.

I will pay attention to how I think and how I feel at all times, and how that affects me.

If I am tired, or simply not in the right mindset to trade as a peak performer, I will stay out, trade in a simulator, or reduce my position size to negligible levels.

I will be constantly aware of the cognitive biases that affect my decision-making, such as having a confirmation and anchoring bias.

It is all practice. Every trade, whether it is real or simulated, is practice in my quest to become a better trader. I will learn from it and move on.

I will not let the results of my trading bleed over into the rest of my life, because I am more than just a trader.

Whether I succeed or fail in trading does not change the fact that I am happy with myself and how I live.”

Wow! Isn’t that an excellent list of trading maxims? Thank you, Allen, for sharing this with all of us.

Joseph F posted a very useful idea in response:

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“Awesome stuff Allen! I’m going to print this and have it on my desk and make sure to remember it before I trade.”

## CHAPTER 5

# **STAYING FOCUSED: BUILD YOUR TRADEBOOKS**

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## **OVERLOADED CIRCUITS: WHY TRADERS UNDERPERFORM**

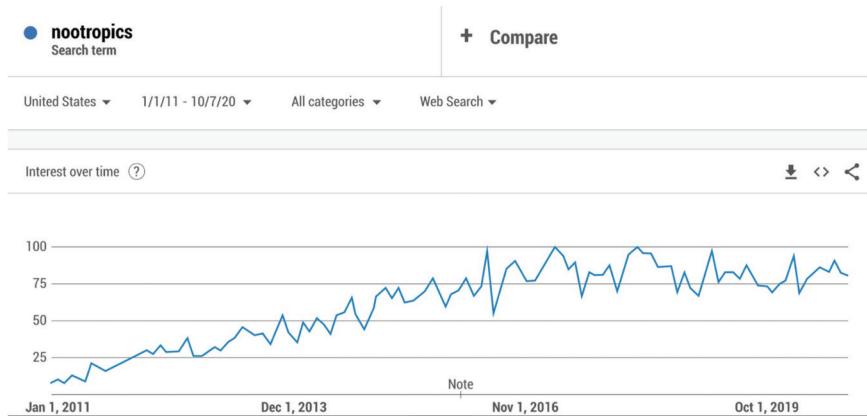
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Almost all of us have been around smart people and successful entrepreneurs who forgot an appointment that their calendar reminded them of 10 minutes earlier. Coffee mugs are a constant companion of many and yet, when people get deeply involved in multitasking, they can't find that mug for the life of them. Often, we may think we are going crazy with the number of tasks we must attend to each day, but we are not going crazy, we are instead deeply crazed. Modern life has overloaded our circuits and we are suffering from a very real but unrecognized neurological phenomenon that psychiatrist Edward Hallowell calls attention deficit trait. It literally is epidemic in our day-to-day lives. Do note that this is different from the medical condition called attention deficit disorder or ADD (known clinically as attention-deficit/hyperactivity disorder). Like a traffic jam, attention deficit trait is an artifact of our modern lifestyle. It is brought on by the demands on our time and attention that have exploded over the past decades. The core symptoms are distractibility, inner frenzy, and impatience. Most of us experience its symptoms. We have difficulty staying organized, setting priorities, and managing time. According to Dr. Hallowell, who has

diagnosed and treated thousands of people for ADD, a rapidly growing segment of the adult population is developing this related condition, and the number of people who require treatment has mushroomed.

Staying focused is an important part of success in any life endeavor or business venture. Given the plethora of distractions in our modern world, we can all benefit from being able to better stay focused on whatever matter is at hand. From the very moment that we wake up, we are facing competition for our attention. In contrast, our ancestors did not have nearly as many distractions in their life. They needed to wake up, provide food for themselves and their family, and protect themselves from potential danger in habitats they had known for generations. The modern world has changed all of that. Our brains are no longer primarily focused on searching out food and being on guard for predators, they are now wired for distraction. Our iPhones are full of apps that genius psychologists and marketers have designed in such a way to attract our attention. They have used gratification techniques such as “likes”, “comments” or “retweets” to keep us busy and train our brains to experience a pleasure high of dopamine when we receive attention. Just as one example, dare we ask, how many tabs are open in your browser right now as you are reading this book?

Many, many people are now looking for ways to be more focused and more effective. For instance, the black market for nootropics (smart drugs, cognitive enhancers and supplements that may improve cognitive abilities, memory, creativity, and motivation) is booming. As you can partially see in Figure 5.1 below, in the last decade there has been a surge in keyword Google searches related to “nootropics” and other performance-enhancing drugs. Our world is becoming more competitive and most everyone is seeking an edge in order to get ahead.



**Figure 5.1:** “nootropics” keyword Google search trend between January 2011 and October 2020.

Although staying focused has become much more difficult in life, it is an extremely important component of success, including in the world of trading. Jumping around from one broker to another, from one strategy to another, and/or from one mentor to another, all in order to find the Holy Grail and become successful and profitable, faster and easier, has become a common issue among many new traders. That is why we decided to include a chapter on the need for traders to stay focused. Unfortunately, most of the remedies introduced by time management consultants and executive coaches do not address the challenges that traders face in this area. Therefore, Mike and I introduce in this chapter an important vehicle to assist traders in their efforts to remain focused: the building of a TradeBook for each strategy being traded (which we will explain in detail in the pages to come). When Mike joined the Bear Bull Traders leadership team, and then became Chief Training Officer for Peak Capital Trading, he encouraged us to put resources into training traders to develop their own individualized TradeBooks. Mike well deserves the credit for this exciting new concept in trader education. His military background and process-oriented mindset has made him an

excellent mentor and an amazing teacher. He regularly offers presentations and webinars on a wide variety of market-related topics including, of course, how traders can go about constructing and then improving upon their TradeBooks (and thus their trading).

## **FOCUS ON THE PROCESS OF TRADING**

Our philosophy in trading is that you need to master only a few solid setups (and TradeBook them!) in order to be consistently profitable. In fact, having a simple trading method consisting of a few minimal setups will help to reduce confusion and stress and allow you to concentrate more on the psychological aspect of trading, which is truly what separates the winners from the losers. In this section, we would like to emphasize the process aspect of trading. Often, new traders are looking for the perfect “easy” strategy or formula to make a living out of day trading. But that does not exist. When we asked traders to share their experiences on how they went about improving their trading psychology, Mahmoud wrote:



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“I have learned to make small incremental progress rather than large ones. I trade on one style (currently I do reversal) until I validate that I have a good understanding of the technique before adding a new one. I am always tempted to go out of my way. I have actually shown some lack of discipline and traded in other styles such as Bull Flag, but in my evaluation sheet this results in a negative point even if I make good money out of it. ‘Money is not

the means but just a byproduct of good trading executions.'

Overall, my psychology is a constant work in progress, because I have no control over many events that occur, but I am learning to create the shield that can help me neutralize the instability. Focus and discipline are the main goals. I am learning to trust the process; mastering it will take me to the proper state of mind. I am furthering that mental strength to other areas such as at work, in sport, and in my relationships because I know I need to live up to it in all areas of my life effortlessly in order to make it be part of my nature. This should be a way of life and not something I turn on and off. I am trying to be in the trading chat room almost every day, even on days I am not trading, because I want to be in contact with the trades of the day and keep the market status in mind, even though this is not easy to do with a full-time job: this is another challenge."

Albert wrote to me on the same topic:



“

"Hello Andrew,

I wanted to contribute to your book.

To me as a developing trader, the dos and don'ts of trading are a constant work in progress, but having a process and framework are the most important things. It is almost as if once a process is developed, constantly only

following the process is as important if not more important than having one. So it really is broken into 2 parts:

A) Having a process, and B) Following the process without fail.

When I say a process, it is a very broad term, but each part of the process of trading needs to be broken down and defined. It's really almost like a set of rules to follow to get to the result you want, but the process must also have positive expected value. All other professions have processes that are strictly adhered to and in trading it must be the same. Example: A general surgeon about to perform a routine appendectomy has a series of rules about how far in advance the patient is sedated, what exactly x-rays showed, does the patient have any prior medical history to be concerned with, how long the patient has been experiencing pain, and I'm sure much more before an incision is even made to the stomach. And what happens if during a surgery unexpected surprises happen, say an abscess is discovered, all while monitoring the patient's vitals? And then how will the post-surgery recovery work?

As such, a trader must define exactly what kind of stocks they will trade. Will they be a day trader, a swing trader, or a combination of both? Stocks/ETFs/options? Once that is decided, what are the entry signals? How will they find entry signals? Will they use a scanner? What are the parameters of the scanner? If they don't use a scanner, are they a sector trader because they know one so well? What is the amount of capital at risk? What is the stop for this particular setup? Where are the profit targets? How soon will stops be moved up if the trade is working? Does the time of day matter to the style of trading they are

doing? Has the trader kept a good blotter and analyzed what time of day and what setups they are most comfortable with? What is the extent of their post-trading review and analysis?

After all of the above is defined, relentless execution of a process is still hard to do because we are human and psychologically many things affect our ability to follow rules. In addition, rules in trading are so broad to define that the journey to find the exact answer for all of the above is so time consuming and psychologically draining that figuring out exactly what kind of trader you are is a process of elimination on its own.

However, it is of optimal importance that all aspects of the process are defined because what it really does is dumb trading down and simplify it. Many books on trading have shown that there's numerous ways to make money in the market and the weakest link in any system is the trader themselves because they are subject to the most variance in terms of subjectivity. What if one day, instead of waiting for your setups as a day trader, you take a trade on a guess and it makes money? This is a terrible result because it builds a cognitive memory point that you can make money randomly and has a butterfly effect much later on down the line that will tempt you to do it again and think back to the one time you did do it and it worked. This then breaks your process and weakens you, your system and your overall goals.

Steps to overcome all of this to me take time and experience. I myself am still constantly tweaking my process and working on ways to add/subtract from it to better myself. Furthermore, this also needs to spill into other parts of your life. It is going to be hard to be a disciplined

systems trader if in other parts of your life you are not disciplined. Say, for example, you are constantly late to all family/friend events or want to exercise regularly but go to the gym erratically and eat poorly all of the time. Then it becomes a personality divergence as well. If you aren't a certain way in your regular life, how can you be a certain way in your trading? Not saying it can't be done, but it lowers the probability.

Steps to overcome this in my view are to build small goals in a day. It is very hard to achieve anything if you only think about the end result of where you want to be a year or five from now. It is best to say that if I am a breakout day trader on volume, then today I will only trade that pattern and never look to trade anything else, and if I can make it through the day just looking for that pattern, then I have accomplished a goal. It is best to break large goals into small ones, as cliché as it sounds, and for the trader it is about 1 trade or day at a time."

Mike and I stay focused on the process of trading and plan out each trade properly with the goal of making money on it. To illustrate this, let's review the actual process of planning and making a trade. You now understand the setup you want to trade, but as a beginner trader, you will have a hard time planning and initiating a trade beforehand. It is very common to have a good setup but then enter or exit a trade at the wrong time and lose money while everyone else is making money. We believe the solution lies in developing a process for your trading. Plan a trade, and trade a plan. I have a Ph.D. in chemical engineering, and my university studies have led me to firmly believe in the process approach to any new challenge or career, including trading. Michael retired with the rank of Sergeant Major after 23 years of service in the United States Marine Corps. During his

time in the service, he taught Marines on such subjects as discipline, strategic leadership, and mentorship. Being disciplined and process-oriented was part of his career as well. We can both safely and confidently say that this is a major reason for our success.

Our trading processes are the same:

- Morning routine
- Develop a watchlist
- Organize a trade plan
- Initiate the trade according to plan
- Execute the trade according to plan
- Journaling and reflection

You must remember that what makes a trade profitable is the correct execution of all of the steps in the above process. Write down your reasons for entering and exiting every trade. Anyone can read this book or dozens of other books, but only a few people have the discipline to carefully plan out every single trade in advance and then execute each one correctly. You might have a good setup but select a wrong stock to trade, such as a stock that is being manipulated by computers and institutional traders. Perhaps you will find a proper stock to trade, but you will enter the trade at the wrong time. A bad entry will make a mess of your plan and you will eventually lose your money. You can find a good stock to trade and enter a trade correctly, but if you don't exit properly, you will turn a winning trade into a losing one. All of the steps of the process are important.

Think about something significant that you do frequently in your life, and then think of how it can best be done. Now, consider how you do it currently. This is a great thought process for traders to have. When you take a trade, you need to ensure that you are focused on the right things both prior to entering it as well as during the trade. Creating a system for this thought process

will take away most of the emotional hang-ups traders experience when looking to enter into a trade as well as managing it while they are in it.

Education and practice will give you a perspective on what matters most in trading, how you trade, and how you can grow and develop your skills. Once you have a perspective on what matters, you can proceed to identify the specific processes on which to focus. The key to success is knowing your exact processes. Often you will learn them the hard way—by losing money.

I have found that trading, sticking to my plan and the discipline inherent in my trading methodology have had a snowball effect of positive habits in my life in general, and these habits have contributed to even more trading success. For example, I start my trading process by following the same routine when I get up each morning. I always go for a morning run before the trading session starts. As I mentioned before, I live in Vancouver, Canada, and the market opens at 6:30 a.m. my time. I wake up at 4:30 a.m. every day and go for a 45- to 60-minute run (usually between 4 and 6 miles (some 6.5 to 9.5 kilometers)). I then come home, take a shower, and at 6:00 a.m. start developing my plan.

I have found that when my body has not been active prior to trading, I will make poor decisions. There are scientific studies showing that aerobic exercise has a positive effect on the decision-making process. People who regularly participate in aerobic exercise (such as running for at least 30 minutes) have higher scores on neuropsychological functioning and performance tests that measure such cognitive functions as attentional control, inhibitory control, cognitive flexibility, working memory updating and capacity, and information processing speed. You can easily read about these topics on the Internet. Very often, our moods are influenced by our physical state, even by factors as delicate as what and how much we eat. Keep a record of your daily trading results as a function of your physical condition and

you will see these relationships for yourself. Begin preventive maintenance by keeping body, and thus mind, in their peak operating condition. I stopped drinking coffee and alcohol, and I have stopped eating animal-based food, and my performance levels have increased significantly. Not eating meat and fish (any living beings that are marked with blood), and not using alcohol, coffee, and tobacco lifts you above the curse and accelerates you forward in every facet of life. Likewise, in trading, your focus should be about being better than your current state, in all aspects of your life.

In day trading, simply being better than average is not sufficient. You must be significantly above the crowd to win in day trading. Unfortunately, day trading often appeals to impulsive people, gamblers, and those who feel that the world owes them a living. You cannot be one of them, and you should not act like one of them. You need to start developing the discipline of a winner. Winners think, feel, and act differently than losers. You must look within yourself, discard your illusions, and change your old ways of being, thinking, and acting. Change is hard, but if you want to be a successful trader, you must work on changing and developing your personality. To succeed, you will need motivation, knowledge, and discipline.

Abiel posted the following to our forum:



“

“I just read an article by Benjamin Hardy, ‘How To Develop Mastery, Make Millions, and Be Happy’ (let’s forget the ‘make millions’ part!), and I think it has some ideas that can help us in our day trading learning journey. The points that drew my attention are below:

- You engage in deliberate practice, pushing your skills and abilities to mastery.
- As you get better, you begin to develop confidence in yourself (confidence doesn't create high performance; it is the byproduct of high performance).
- As you develop confidence, you begin to deeply enjoy what you're doing—and become very passionate about it. As Cal Newport (an author, a blogger, and a professor at George Washington University) explains, 'Passion comes after you put in the hard work to become excellent at something valuable, not before. In other words, what you do for a living is much less important than how you do it.'
- Confidence isn't what leads to success, instead, successful behavior (discipline) is what leads to confidence.
- Your personality doesn't shape your behavior, but instead, your behavior shapes your personality.
- If you want to become successful, it's better to follow what successful people did to get there than to follow what they do after achieving 'success.'
- If you look at any person who is honestly seeking a higher level of success, they are usually waking up early, studying and learning lots, seeking advice and feedback, and creating, testing, and failing."

Carlos replied:

“

“Excellent article! I love this line: ‘If you want to become successful, it’s better to follow what successful people did to get there than to follow what they do after achieving ‘success.’ This is so true in so many things in life, people want to skip all of the hard work and just reap the benefits of success. Does not work that way...”

In 2014, I was visiting New York City and decided to go for a walk along Wall Street during lunchtime on a working day and perhaps take a selfie with Charging Bull, the famous 3.5-ton bronze sculpture of a bull located near Wall Street that symbolizes New York’s financial industry. I assumed that most of the people walking around in that area on a weekday must either be traders or working in the financial sector. I knew there was a good chance that the person sitting next to me in a coffee shop was taking home a two-million-dollar bonus at the end of the year. I tried to observe people’s attitudes, how they walked, how they dressed and how they treated themselves. I rarely saw anyone who was not well-dressed, without confidence and not appearing to be in excellent physical shape. I wondered to myself, are these people well-dressed, confident, in great physical condition and disciplined because they are rich and successful or did they become rich and successful because they were disciplined, confident and ambitious? This is possibly a “chicken and egg” problem with no real answer, but I personally believe it is the latter. Based on what I saw, successful traders have often succeeded in almost everything they have done. They are ambitious and they expect a lot from themselves and they expect it at

an early age. They expect to be the best. Success has been their history, so why should trading be any different?

Winners think, feel, and act differently than losers. If you want to know if you have the self-discipline of a winner, try right now, starting today, to stop a habit that has challenged you in the past. If you have always wanted to be more physically fit, try adding exercises such as running into your routine, and also take control of your salt and sugar intake. If you drink too much alcohol or coffee, try to see if for one month you can stay away from them. These are excellent tests to see if you are emotionally and intellectually strong enough or not to discipline yourself in the face of a losing trade. I am not saying that if you drink coffee or alcohol, or that if you are not a regular runner, you cannot become a successful trader, but if you make an attempt at these types of improvements and fail, then you should know that exercising self-control in trading will not be any easier to accomplish. Change is hard, but if you wish to be a successful trader, you need to work on changing and developing your personality at every level.

Traders who fail to make money in trading often get frustrated and go out and study more about the market to learn new strategies and additional technical indicators. They don't realize that their lack of self-discipline, impulsive behavior, and bad life habits are the main cause of their failure, not their technical knowledge.

As discussed previously, trading cannot be looked at as a hobby. You must approach trading seriously. That is why I wake up very early, go for my run, take a shower, get dressed, and eat oatmeal for breakfast, all prior to firing up my trading station at 6:00 a.m. I am awake, alert, and motivated when I sit down and start building my watchlist. This morning routine has tremendously helped my mental preparation for coming into the market. So, whatever you do, starting the morning out in a

similar fashion will pay invaluable dividends. Rolling out of bed and throwing water on your face 15 minutes in advance just does not give you sufficient time to be prepared for the market's opening. Sitting at your computer in your pajamas or underwear does not put you in the right mindset to attack the market. I know, because I have experimented with all of these scenarios.

My watchlist comes from a specific scan that I use every morning. I will not look anywhere else because I am confident that the stocks on that scanner will have the best opportunity to set up for me to trade. I will vet each stock in the same way, using a checklist to determine if it is actually tradable for me. My watchlist is built by 6:15 a.m., and I will not add anything to it after that time because there won't be enough time to review new stocks and plan for a trade. This allows me to watch the tickers on my watchlist for the 15 minutes prior to opening.

During these 15 minutes, I watch the tickers on my watchlist and develop trade plans for them based on the price action I am seeing. This is the most difficult part, and it requires experience, knowledge and education. Many traders fail at this step. When the bell rings at 6:30 a.m. (9:30 a.m. New York time), I'll have my plans in place, written on note cards because it is too easy to forget what I've seen on each ticker coming into the Open. What is my plan if it sets up to the long side? What's my plan if it sets up to the short side? What setup do I want to see? What are my profit targets? Where will my stop be? Is the profit window large enough for the trade to make sense? Just asking yourself questions like these when you are planning your trades will give you a significant advantage because you can then go in with a battle plan and stick to it. If my trade plan is written down close to my face, I can easily refer to it, and that eliminates the anxiety that I used to feel when the opening bell rang. All I am doing at the opening is looking for my signal and trigger to enter the trade. Now let's take a look at one of my recent 2020 trades.

On the morning of June 12, 2020, the stock market gapped up 2%. Due to the pandemic, the stock market had been weak for months, but some signs of recovery were slowly appearing. Oil prices had dropped significantly as the demand for oil went down because of the economic slowdown. As you read these words, you may recall that the price of oil dropped in April 2020, and some people in the States could fill a tank with gas for less than \$30. In addition to oil and energy companies, several sectors were hit hard in the first months of the pandemic, including airline, cruise line, and hotel/motel/resort companies.

One of the stocks we day traded very often in our community during the pandemic was Occidental Petroleum Corporation (ticker: OXY), an American company engaged in oil exploration in the United States, South America and the Middle East. As you can see in Figure 5.2 below, OXY was gapping up by over 7%, and by 9 a.m. (New York time) was being traded in the pre-market at \$18.76, with volume at almost 1.2 million shares. This is a very good volume and liquidity for the pre-market. Only Stocks in Play can show good trading volume in the pre-market. OXY's Average True Range (ATR) was \$1.92, meaning the stock's price on average moves around \$1.90 in a day! That is basically 10% intraday volatility for an \$18/\$19 stock. We day traders love this: volatility and liquidity!

T Gappers Watch List (Pre-Market Movers): 9:00:00 - 9:04:59 6/12/2020										-	X
Symbol	Price (\$)	Vol Today	Chg Close	Chg Close	Flt (Shr)	Avg True	Shrt Flt (%)	Sector			
SPR	28.69	182,946	2.52	9.6	104M	3.24	8.37	Manufacturing			^
AMC	5.66	109,955	0.49	9.5	52.5M	0.69		Information			
CLDX	9.58	868,551	0.83	9.4	17.6M	0.83	1.59	Manufacturing			
M	7.34	1.38M	0.58	8.6	309M	0.98	45.12	Retail Trade			
MGM	19.33	555,554	1.49	8.4	469M	1.77	8.16	Accommodation and Food Services			
APA	13.85	159,774	1.06	8.3	376M	1.42		Mining, Quarrying, and Oil and Gas Extraction			
MT	10.80	205,757	0.81	8.1	1.01B	0.57		Manufacturing			
MIK	5.98	122,503	0.44	7.9	147M	0.96	37.86	Retail Trade			
OXY	18.76	1.19M	1.35	7.8	899M	1.92	7.85	Mining, Quarrying, and Oil and Gas Extraction			
BA	183.15	2.14M	13.15	7.7	564M	16.11	2.66	Manufacturing			
MRO	6.73	368,350	0.47	7.5	789M	0.54	8.20	Mining, Quarrying, and Oil and Gas Extraction			
SPG	77.14	125,765	5.22	7.3	303M	7.45	10.34	Finance and Insurance			▼

**Figure 5.2: My watchlist at 6 a.m. (9 a.m. New York time)—Occidental Petroleum Corporation (\$OXY) is on my watchlist.**

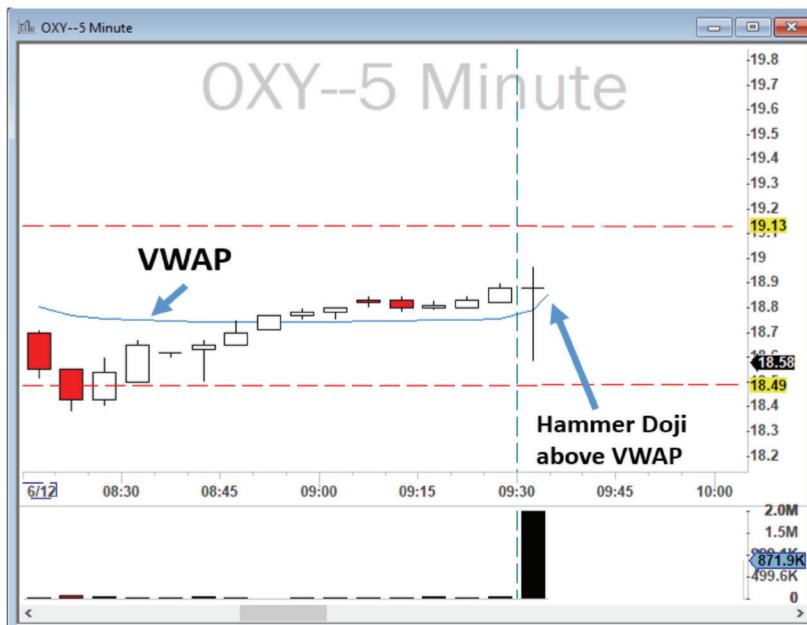
OXY's float was around 900 million shares, which placed it in a range that I am comfortable trading. I find low float stocks too difficult to trade (primarily) because they can be very difficult to manage risk in. I looked at the price action in the pre-market (see Figure 5.3 below) and found two important levels of \$19.13 (high of pre-market and also the previous day's high) and \$18.49 (low of pre-market). I also noted that the stock had already gapped up by more than 7%. I decided that if OXY stayed above VWAP (Volume Weighted Average Price), then I would look for either a 1-minute or 5-minute Opening Range Breakup (ORB).



**Figure 5.3:** Occidental Petroleum Corporation (\$OXY) price action in the pre-market before market Open at 9:30 a.m. (New York time).

As the market opened, OXY made a nice hammer Doji above VWAP on its 5-minute chart. A hammer Doji is an indecision

candlestick leaning toward buyers. Having developed a trading plan pre-market, I knew in advance what I would be looking for (as set out in the previous paragraph). The stock was gapping up (see Figure 5.4 below), the overall market was in fact gapping up, and OXY was above VWAP.



**Figure 5.4:** Occidental Petroleum Corporation (\$OXY) price action at the market Open at 9:30 a.m. (New York time).

I decided to take the trade to the long side at \$18.85 for a 5-minute ORB. I also looked at my 1-minute chart and saw that OXY had claimed VWAP (closed above VWAP) at 9:36 a.m. This made a perfect 5-minute ORB up! You will see this plotted on the two charts comprising Figure 5.5 below.



**Figure 5.5:** 5-minute and 1-minute charts plotting my ORB trades on Occidental Petroleum Corporation (\$OXY) on June 12, 2020.

I sold my long positions toward \$19.40 in three steps for a profit of \$2,421.81 (before commissions and fees). One good trade and I was done for my day at 9:39 a.m., as shown below in Figure 5.6. I saw OXY even went higher to \$19.60 before selling off below VWAP later in the morning.



**Figure 5.6: My profit on June 12, 2020  
(only nine minutes into my trading day).**

Once the stock sets up, signals, and triggers an entry, I will enter without question (well, that's the plan anyway). Sometimes I may second-guess myself, but not too often. I have my profit targets written out on my trade plan, as well as the technical level that I am basing my stops on, so after entry I am just concentrating on hitting my marks and booking profit. There are some who say that knowing when to exit is the hardest part of the trade. It can be extremely difficult not to exit the trade too early if you do not have a pre-set plan. If you have a plan ahead of time and you stick to it, you will have a much better chance of letting your winning trades work and cutting your losses off quickly, instead of the other way around. This will also help with managing your emotions while in the trade. One of my students has spoken to me about the need to filter out the noise. This strategy goes a long way to help do that so you can focus on the trade.

Once the trade is done, I will reflect on how well my plan worked and how well I stuck to what I had written. Most of the reflection on my trades will come in the evening when I review and recap my trades from the day. I believe one of the key steps forgotten by many is reflection. “What did I do right?”, “What did I do wrong?” and “Should I have sold earlier?” are all extremely important questions for the development of your trading strategies. Just because you made a good profit does not mean you are a perfect trader. How you play both sides of the table is extremely important. Write down or do a video recap of the trade and everything that comes to mind lesson-wise. Then file it away with other past lessons, and use them all as a reference for the future. Some lessons hit harder than others, but be confident that with time you will only get better. It only takes one incident of getting your hand slammed in a door to figure out that you must be more careful, but it may take two or three times to learn to turn on the lights before walking around your house at night.

Why is this process in trading important? It's important because it describes how things are done to prepare for a trade and then provides the focus for executing them. It helps to filter out the emotional social noise and gives you a better chance for a more successful winning trade. It provides you with a tool to go back to and reflect on your trades and makes you a better trader. If you focus on the right processes, in the right way, you can design your way to trading success.

## **FOCUS ON BUILDING TRADEBOOKS**

Building a **TradeBook** for each strategy you trade is an important part of your process-oriented success. Mike and I are both strong advocates of every trader having a TradeBook for each of their trading strategies. Each TradeBook though is much more comprehensive than just having some brief notes about a

particular strategy. Your TradeBook includes your stock selection criteria, how you identify the setup in order to trade it, how you execute the trade, and your thoughts as you consider and evaluate the trades you made with the strategy.

In addition, each TradeBooked strategy must have a name. Giving your strategy a name makes it real and unique to you. The first thing parents do for their newborn is choose a name. Indeed, most parents have names in mind even before their child is born. Within days of a child's birth, they give an identity to the new member of their family. A trader should think of their strategies as their babies! The name for your strategy in your TradeBook can be anything. My friend and longtime colleague at Bear Bull Traders, Brian Pezim, has a famous strategy called *Rising Devil*, which is essentially a counter-trend short reversal at the Open. People have traded this particular strategy forever, but Brian has adopted this strategy for himself and TradeBooked it. My own *Fallen Angel* Strategy is essentially a reversal trade for the break of high of the day for low float stocks. Again, it's nothing revolutionary, but by coining a name for it, it makes it unique and real to me. One of our traders, YedidYah, has developed a TradeBook for a strategy that he calls The Nyquil (see Figure 5.7 below, his tweet of October 10, 2020). Can you guess what pattern he's looking for?

King YedidYah Trades LLC.  
@KingYedidYahTRD

@BearBullTraders Always encourages us to develop and name our own #Strategy so I've written out a Strategy / #Tradingplan and I've named it The Nyquil. Can anyone guess what pattern I'd be looking for that correlates with the name I've chosen? #BBTfamily

4:41 PM · Oct 10, 2020 · Twitter for iPhone

**Figure 5.7: The Nyquil, the name chosen by Bear Bull Trader YedidYah for his TradeBooked strategy.**

Whenever a potential trade catches your eye, you should decide in which TradeBook it belongs. If you cannot put the trade opportunity into any of your TradeBooks, it means you should not take that trade. And this is the most important purpose of your TradeBooks. They help you answer the question: Should I take the trade or not? If a seemingly attractive trade does not fit into your TradeBook system, then there is no trade. Your TradeBooks are unique to you, but the decisions you make based on them should be objective (and definitely not subjective). With numerous trading opportunities available to us every day, there is no need to waste energy on poor potential trade ideas. When you enter into any trade, you will feel stressed. Your TradeBooks become your stability in the middle of your psychological storm; they help you to stick to your previously well-thought-out rules and to have confidence in the decisions you make. There is then no need to second-guess yourself.

Your TradeBooks must have 4 important elements:

1. Criteria for stock selection
2. Identification of setup
3. Execution of trade
4. Consideration of result

**Selection:** Each of your TradeBooks must include what type of stock will best work with that strategy. Is it a low float stock strategy? Is it a medium float stock strategy? Many important questions must be answered for each strategy. What time of the day is best for trading this strategy? What is the minimum relative volume required for the stock being traded with this strategy? Is it important if the stock you are planning to trade with this strategy has gapped up or down? What are the indicators required for candidates for this type of trade? How far from VWAP (Volume Weighted Average Price) or other indicators should the price of the stock be when you enter a trade using this strategy?

Stock selection criteria is an important part of your TradeBooks. Some people have only a strategy, and often do not know the difference between having a TradeBook and having just a strategy. For example, “my” Fallen Angel Strategy (detailed in my *Advanced Techniques in Day Trading* book) does not work on medium float stocks, only on lower float stocks with heavy volume, and only if they have gapped up more than 10%. That is all clearly set out in my TradeBook. Figure 5.8 below, an excerpt from my TradeBook, shows my stock selection criteria for trading a 1-minute Opening Range Breakout (ORB). For your information, these are the cornerstone of my scalping strategy.



<b>TradeBook 1-min Opening Range Breakouts</b>			
<b>Selection</b>			
Which Stocks in Play			
Stock in Play in Pre-Market	1-min ORB Up	1-min ORB down	
Gap <b>up</b> trades <b>above but extended</b> from VWAP before Open		Possibly (risky)	
Gap <b>up</b> trades <b>above but near</b> VWAP before Open	<b>A+</b>	<b>avoid</b>	
Gap <b>up</b> trades <b>below but near</b> VWAP before Open		if “claims” VWAP	If “loses” VWAP
Gap <b>up</b> trades <b>below but extended</b> from VWAP before Open		Fallen angel maybe?	
Gap <b>down</b> trades <b>above but extended</b> from VWAP before Open			
Gap <b>down</b> trades <b>above but near</b> VWAP before Open		if “claims” VWAP	if “loses” VWAP
Gap <b>down</b> trades <b>below but near</b> VWAP before Open	<b>avoid</b>		<b>A+</b>
Gap <b>down</b> trades <b>below but extended</b> from VWAP before Open		Rising devil maybe?	

**Figure 5.8: Stock selection criteria chart in my 1-minute ORB TradeBook.**

As you can see, I have two separate columns in my TradeBook, one for a 1-minute Opening Range Breakup and one for a 1-minute Opening Range Breakdown. One column is for buying long and the other is for selling short. Although the chart pattern for trading these two strategies can appear similar if you flip the chart, and it may present as though the same strategy could work for going either long or short, they are different in nature. Shorting a strong stock that has gapped up 10% because of good news is

different and deserves a more unique TradeBook than shorting a weak stock that has gapped down on bad earnings, even though both may seem like they have the same setup. Similarly, a 1-minute ORB up is different on a weak stock compared to a strong Stock in Play. It's basically the same as when you are behind the wheel of your car. Turning left while driving is different from turning right. Depending upon the direction you are wanting to go, you must take different factors into account and follow different sets of rules.

That is why it is important to first recognize which strategy is most appropriate for the setup unfolding on your price charts. Then, once you have selected the right strategy, you must determine whether you will be going long or short.

**Identification:** The identification section of your TradeBooks should include the indicators and signals you look for in your price charts as well as any other matters you should be watching for before entering a trade. To return to the example of driving a car, trade identification is quite similar to looking in the side mirror of your car before making a turn. Before turning left or right, you must confirm that your path is clear and no other vehicle is approaching. If it isn't clear, you must wait, or you must change your driving plans. What should be included in the identification section of your TradeBooks depends very much on the particular strategy in addition to your own style of trading. Different traders consider different time frames, indicators, chart patterns, and price action. For my 1-minute Opening Range Breakout TradeBook example, I look at how the stock that I selected (described in the previous section of this chapter) is trading in the first minute after the opening bell. Here is what I have written in the identification section of this particular TradeBook:

“

“How stock trades in first min is VERY important.

Does 1-min claim VWAP or lose VWAP?

- If closes too far from VWAP after 1-min: avoid, too extended.
- If closes just above VWAP after 1-min: consider long.
- If closes just below VWAP after 1-min: consider short.

1-min candlestick should be small.

- No big wicks in 1-min candle.

Level 2.

- Big ask is bullish, do not go short (consider long).
- Big bid is bearish, do not go long.”

**Execution:** Trade execution should include your *entry signal*, *your defined stop loss* and *your potential profit targets*. To use again the example of driving a car and making a turn, your execution is the act of actually turning the vehicle. You change the gear (if it's a standard transmission) and then you make the turn. When making the turn in an intersection, you know in advance roughly how the process will end. If there is no other car coming and there is no pedestrian crossing, your turn should end as expected, but that does not mean that you have no backup plan. When you are making the turn, you cover the brake and, in order to avoid an accident, you keep an eye out for any unexpected vehicle or jaywalker. This is virtually the same process for executing a trade. You enter the trade, you have a plan for taking your profit and completing the trade, and if things go wrong, you have already set your stop loss. For my

example of a 1-minute ORB, here is what I have defined in that TradeBook:

“

***“Entry***

Break of 1-min candlestick.

I consider body, not wicks, but generally should not be that much different.

***Stop Loss***

VWAP or other dominant MAs [moving averages] nearby.

***Profit Target***

Break of pre-market level. Any other level nearby. Add on the pull back possibly, if still above VWAP for long, below VWAP for short.

***Place for improvement:*** I need to work on my adds, note to myself.”

**Consideration:** A really good TradeBook must include a scale for measuring the quality of the strategy as well as notes you make regarding how to improve its performance. These notes are objective comments unique to you and your TradeBook. Writing these words out encourages you to enter only those trades that have a high chance of success and to leave so-so trade ideas alone. As you noticed above, I have made notes for myself almost everywhere in my TradeBooks to help me trade each strategy better. For your reference, what follows is the consideration section for my 1-minute ORB TradeBook:

**“Rules and Notes:**

Wait for the breakout!  
Do not trade “wicky candlesticks”.  
Don’t be afraid of stopping out.  
You can always flip!  
Watch Time & Sale.  
Look for unusual speed and order flow.  
Watch Last Sale Price.  
Look for explosion.”

Of course, you may not fully understand some of the terms I have made in my own notes. They are unique to me. Each of your TradeBooks are a handbook, designed by you, for your success.

## **HOW TO KEEP YOUR TRADEBOOK**

While many of us maintain our TradeBooks in an electronic format, some of our traders prefer to have them in paper form, as shown in Figure 5.9 below, a tweet from Robert, who is one of our Bear Bull Traders.



Figure 5.9: The TradeBook built by Bear Bull Trader Robert.

## **FOCUS ON THE FEW STOCKS IN PLAY**

Two important elements of your success in trading are to focus on just a few Stocks in Play each trading day and to have only a few TradeBooks (and thus only a few strategies). You are guaranteed to fail if you have many different strategies and are looking

for trading setups in 15 stocks at the same time. Only computers and algorithms have enough processing power to observe and digest that much information in order to make the necessary decisions quickly. In addition, traders should not spend too much time looking at what other people are trading. That can lead you to feel that others are doing better than you, and that will then impact your own trading. For ourselves, Mike and I focus on trading what we are good at, and although we realize that results in our missing out on many trade opportunities, our priority is to focus on quality, not quantity, and that is a significant component of our success.

“Warrior”, a new trader, posted the following thoughts to our forum about what might be the best approach for a novice trader to take:

“

“I just joined Bear Bull Traders about a week ago after reading Andrew’s book and finding it to be a great resource. I got started on the simulator this week and am already developing a love-hate relationship with trading (I see this as a positive). I am experiencing first-hand the psychological and mental challenges that, up until this point, I’ve only read about. Thanks for getting my foot in the door.

I started thinking about a learning strategy that would keep me engaged while minimizing frustration. After a couple of days following the chat room, I am now thinking of focusing on one or two stocks exclusively while I better develop my skill set. My logic here is that by

knowing a couple of stocks inside and out, I'll be better suited to understand their unique behaviors.

Are there major drawbacks to this path I'm not thinking of? I recognize that I will probably miss out on great opportunities afforded by creating a new list of stocks each day based on the Gappers scanner. But so far I've found that alternating between names makes me lose my train of thought and messes with my pattern recognition. I am currently only using one screen, which is probably a major reason for my issue, but I'm hoping to hear if anyone else pursued this concept and what their experience was."

One of our members, Willy, posted some excellent comments in response:

"I understand that day trading is different for everyone. I am not an expert, but I have more than a year in front of the screens. I'll explain my experience so far and from there you can take what suits you. The first thing I can emphasize is that day trading is a career, it's not something you learn in 3 months (with rare exceptions or maybe if you have a mentor with you all of the time). Based on that, prepare to last a minimum of 1 year learning, as long as you maintain the discipline of a journal and learn from your mistakes.

You have to have some strategy, but the most important rules to stick to are the following:

1. 1. Ensure that your winners are greater than your losers.
2. Have good entries.
3. Define a maximum loss (2% of your account).
4. Define a daily goal (1-2% of your account).
5. Define a monthly maximum loss (6% of your account).
6. Stop doing trades if you have 3 erroneous trades in the day.
7. Choose your trades well and don't do too many.
8. Stay away from low floats.
9. When you start live, buy only 100 or 50 shares until you prove that you can be profitable.
10. Learn about the price action.

As for strategies, when I read Andrew's book and tried to use his strategies, I realized that I did not apply them well because there are several things that you can only learn and realize from your time of actual experience in front of the screen. Mainly, you have to wait for the ideal entry and, if you do not succeed, you just do not do that trade.

To use a strategy, you must try it for a reasonable amount of time. Let's say, for example, 50 times, and if it works 80% of the time, it's a good one.

Regarding the selection of stocks, I think it's not a good idea to concentrate on a specific stock unless you do scalping with many shares.

I use stocks in play with a good catalyst (earnings, important news, etc.). Sometimes it works with those who are every day in play (such as MU, SQ, AMD), but I

will advise you that because you have only one screen, it is better to concentrate on the Gapper with the highest percentage gap in the pre-market (up or down) and the greatest relative volume for the day.”

Robert added:

“

“It is a good idea for beginners to stick with watching a handful of stocks. However, the same stock won’t do the same thing every day. For example, some days AMD will be clean with nice patterns/setups, while on other days it is pure trash chop.

If watching two stocks makes you comfortable with identifying patterns, I recommend that you watch 2 stocks from the watchlist. Stocks in play will present similar setups since the price action is representative of the mass psychology between the bears and the bulls.

Lastly, the past month or two has been very tricky since most stocks are mirroring SPY [an exchange-traded fund that tracks the S&P 500 stock market index] to varying degrees. This is especially true after 10 AM. Keep this in mind, since your 2 stocks are at the whim of the larger index. Best of luck.”

After reviewing the posts by these two members, “Warrior” mentioned:



“

“The more I thought about what I wrote, the more I realized the idea has holes in it. I can see that the concepts taught here have more to do with strategies that work best for stocks that gapped with lots of volume, i.e., the setup is more important than the name.”

Willy and Robert are correct, and “Warrior” came to the correct realization as well. You have to find and then monitor just a handful of the day’s Stocks in Play. And those Stocks in Play will change every trading day.

Every morning, I create a list of stocks to watch based on my Gappers watchlist and then share it with our community in the chatroom. My watchlist has two and sometimes three parts:

1. Low float stocks (usually less than 20 million shares)
2. Mid float stocks (usually over 20 million shares)
3. Volatility or Commodity ETFs (Exchange-Traded Funds) such as UVXY, NUGT or UGAZ

If there is no Stock in Play, I sometimes look at Volatility or Commodity ETFs such as UVXY, NUGT or UGAZ. I prefer though not to trade ETFs, as they are often too volatile for my style of trading. In addition, many leveraged ETFs are following other financial instruments such as short-term Futures or gold prices. For trading them efficiently, you need to have an eye on those underlying instruments. You need to have a look at the Dow Jones Industrial Average Index while trading UVXY or keep an eye on the price of natural gas while trading UGAZ. My preference is to only trade Stocks in Play and I generally have only a few of those on my watchlist each day.

Having only a few Stocks in Play allows you to focus in on them and watch their price action closely before trading them. How is the volume? How is the time and sales order flow? What is the spread? How choppy are its moves? These questions must be answered before making any trade, and you can answer them only if you are closely watching what's happening in the market. There is so much more involved than merely noticing a pattern and then trading it.

Sihanook pointed out this important aspect of trading to me in his email:



“

“One of the first issues I had was focusing on a small set of stocks. As a beginner, it is absolutely imperative that you don't look at too many stocks. I think everyone should start with 2 or 3 stocks. However, the question kept haunting me every morning – have I picked the right 3 stocks? What if the ones I did not pick are the ones that would give me a profit, and I picked some lousy ones? This was a constant battle for me, and I cheated myself by having only 3 charts visible at a time, but I kept switching the symbol in those charts back and forth! Overcoming this took time. It doesn't matter what people tell you or whether an expert like Andrew keeps telling you to focus on a smaller set. You need to analyze your trading habits daily. What did you do right, and what did you do wrong? And not just think about it, but write it down. Go back to what you wrote down later, and read it over again. Include copies of the charts you were looking at.

Eventually I realized I was missing a lot of opportunities because I was switching back and forth symbols so much. In my effort to not miss any opportunities, it was actually having the opposite effect. I was missing almost everything! I ended up chasing them and losing money. It's really easy when that realization hits to fix your problem – pick your 2 or 3 stocks and stick with them. That's what I do now, and my mentality doesn't tell me anymore that I might miss opportunities. What I tell myself is – there are thousands of opportunities in trading every single day.

I am never going to catch every single opportunity. All I need is a couple of good opportunities a day. It's better to not get the opportunity and miss out on a trade than to chase after an opportunity and lose money. Folks like Andrew can switch between a bunch of stocks, monitor alerts, run a chat room and do all kinds of crazy things simultaneously. That kind of focus takes time and a LOT of practice. As a beginner, have smaller goals and plan to grow gradually – not overnight.”

These are some amazing points by our traders. Stay focused, stay strong.

## **FOCUS ON GOOD TRADING, NOT YOUR P&L**

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Traders who are consistently profitable have studied the fundamentals of trading and have learned how to make well-thought-out and intelligent trades. Their focus is on the rationale for their actions rather than on making money. Amateurs, on the other hand, are focused on making money every single day. That kind

of thinking can be their worst enemy. I am not consciously trying to make money as a trader. My focus is on “doing the right thing”. I am looking for excellent risk/reward opportunities, and then I trade them. Being good at trading is the result of mastering the skills of trading and recognizing the fundamentals of a good trade. Money is just the by-product of executing fundamentally solid trades.

As a new trader, you will be constantly looking at your profit and loss (P&L). P&L is the most emotionally distracting column in my trading platform. Plus \$250, negative \$475, plus \$1,100. I tend to make irrational decisions by looking at it. I used to panic and sell my position when my P&L became negative although my trade was still valid according to my plan. Or, quite often, I became greedy and sold my winning position too early while my profit target had yet to be reached according to my plan. I did myself a favor and I hid my P&L column. I trade based on technical levels and the plan I make. I don’t look at how much I am up or down in real time.

This is a point very well emphasized by traders in our community. Sihanook further wrote:



“

“My second single biggest enemy has been my incessant need to trade my P&L. Andrew says this over and over in the chat room, but it’s a hard battle to win. Especially if you have a day job to go to, and your goal is to meet a certain profit target before heading out to work in the morning. The approach that works for me is to simply hide the P&L window on the computer. Don’t keep it showing. If it’s on the screen, you’ll look at it. If it’s not,

and you need to do a few mouse clicks to see it, you probably will look at it less often. If you're using DAS Trader, a rough idea of your performance is already on the charts. Trust me, if you took a big loss on a trade, you'll know, you don't need the P&L for that. What is more important is that you focus on the charts, the levels, the volume, the Level 2, and all of the other signals that help you make the right trading decisions, and your P&L is not a signal, not at all!"

Tyler believes trading his P&L is one of his most significant trading sins:



“

“Trading by the P&L is one of my guiltiest sins – I often find myself exiting a trade with money on the table or being frightened by the size of the loss. Although I feel incapable of completely ignoring it, I am paying more attention to the patterns, Level 2 data, and spread than I was in the beginning. This is where greed plays the biggest role for me. If I see I'm positive in a trade but it just doesn't seem like enough, I will wrongfully hold it. Instead of taking a partial and resetting a stop loss for the remaining shares, I am now doing loss management.”

Peter agrees and recommends disciplined trading instead of emotional trading based on your P&L:



“I noticed that another factor that affects my trading is observing my profit and loss constantly during a trade. This seems to draw my attention away from the market information and closer towards emotional trading based on fear and greed. The most important thing at these times is to maintain a focus on the market behavior and basing decisions on that, rather than the P&L.”

Jeremy also emphasizes this in his submission. He wrote to me:



“One of the biggest things that has caused me to miss out on trades and lose out on winning trades is trading to my P&L instead of trusting the trade and the pattern. I am often in a good position and have not been stopped out of the trade. However, I see a negative unrealized P&L during a small pullback, get anxious and get out of the trade. Often, shortly after I get out, the trade does exactly what I was looking for when I originally got in. This is something that I have had to learn. I have had to reflect and understand. Am I getting out of the trade just because I’m nervous of a negative unrealized P&L or am I actually getting out because of a technical reason (i.e., couldn’t make a new low, volume never developed, etc.)?

Emotionally, it is also very demoralizing to get out of a good trade with a small loss, only to have it do exactly what you expected it to do. Typically, this sticks with me mentally and I rush into another trade, or I'm emotionally affected enough to not make a smart trade following this."

P&L is not important when novices first begin trading with real money, especially when smaller share sizes are involved. Most trading platforms include an option to hide real time P&L. When this is not available, a strategically placed strip of ever-versatile duct tape or dark-colored masking tape will conceal that information. Your goal is to develop trading skills and not to make money. You must focus on getting better every single day, one trade after another. Push your comfort zone to find greater success.

## **FOCUS ON ONLY ONE STRATEGY**

The key for new traders is to master one simple strategy. Once a new trader can tread water in the market with that one strategy, they are on the path to be a trader without blowing up their account. This is simply a matter of spending time in the chair. The more time you spend watching your charts, the more you will learn. This is a job where you survive until you can make it. You can start casting out later, but first you need to master just one strategy and TradeBook it before moving on to develop the next strategy. It can be an ABCD Pattern Strategy, it can be an Opening Range Breakout Strategy, or as we explained before, you can create a strategy of your own. Narrow the choices down, develop that area of strength into a workable strategy, and then use that strategy to survive until you are able to develop others. This point was very well emphasized in the submissions I received from traders in our community.

Let's read the comments of two of these people who have gone through rough patches in the learning process.

Sihanook writes:

“

“The other thing that significantly affected me mentally was if I knew enough of the strategies to make a profit. Andrew and various other experts in the field have a lot of techniques at their disposal. As a beginner, irrespective of how many books you've read and how many patterns you've seen, applying them to a chart in real time is a completely different story. Here's my strategy to deal with that – pick one strategy, the one you feel like you can easily understand, and just look for that, day in and day out until you feel like you can see it on a chart without even thinking about it! For e.g., opening range breakdown is a pretty easy pattern to master. You can go even further in this strategy – pick either Short or Long to focus on initially. That way, you can really focus on one thing and get it ingrained into your brain before venturing elsewhere. When I talk to some of my friends about various techniques and chart patterns that I follow, the first thing some of them say is – what if you modified your technique to also do this or do that, and then you can enter the stock better, or capture a larger portion of the gain. Don't let those comments change your strategy, at least until you master your own strategy first. It's very easy to talk like a pro looking at a chart in the aftermath – not so much in real time. Trust and master your strategy first.”

Kerry very nicely describes overtrading in the following excerpt from his email. Kerry tries to put only a few Stocks in Play on his watchlist each morning, but he is not patient enough to wait for the strategy to reveal itself, and he then starts overtrading patterns and strategies that do not even exist.

“

“Andrew:

The idea of trading only one stock directly contradicts the idea that a person has a defined strategy and a stock should fit that strategy, and any stock will do, it doesn't matter which one, and there could be dozens of other ones just like it that are just as tradable. I haven't gotten to that phase yet. I would describe myself as a very serious hunter with a high-caliber rifle, but instead of sitting in the bush waiting for the prey to approach, I am just swinging the rifle around, blasting at anything behind a tree or bush that moves.

Is it a trend strategy? I'll try it. Is it a reversal? I'll try it. An MACD [moving average convergence divergence] crossover? A kangaroo tail? A fallen angel? Let's try it. Sooner or later I will settle down. All that matters, anyways, is the risk and to grow the account. So while I am not the most agile or cleverest hunter in the woods, I am extremely ruthless and bloodthirsty when it comes to whacking down a profit when I've cornered one.”

Becoming a consistently profitable trader requires hard work, extensive preparation, and considerable patience. Successful trades usually look easy after they're done, but actually finding

them is far from easy and requires more patience and hard work than you might imagine if you have not day traded before.

You need to watch, watch some more, and then keep watching. If a stock you're watching isn't offering excellent risk/reward opportunities, it's time to move on. Check out other stocks on your watchlist, and then monitor them closely. Consistently profitable traders often spend their trading days searching and watching for excellent risk/reward opportunities.

Successful traders are patient and resist the temptation to be involved in every move. Traders need to wait for opportunities where they feel comfortable and confident. It is not enough just to buy a strong stock, or sell short a weak one. Entry price is also very important. You have to open your positions at a price that offers the best risk/reward opportunity and not trade a strong stock that has moved away from a good risk/reward entry. That, as I described earlier, is called "chasing the stock."

For example, if a stock is trading near a support and then breaks out downward, and you see a short selling opportunity but miss it, well, that is your first mistake. But if, out of frustration, you sell short that same stock well below that level, you have chased it. Now you have made a bigger mistake. Chasing stocks is a deadly unforgivable sin in day trading. Missing the opportunity will not lose you any money (just an opportunity cost), but chasing the stock will. Do not let one mistake cause you to lose money with another one.

## **FOCUS ON YOUR HEALTH**

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We review the importance of a healthy body and mind in Chapter 8, but it is important to mention that sleep, a good diet, and exercise are critical for staving off distractions and being focused. Though these sound like no-brainers, too many of us abuse our brains by neglecting obvious principles of care. You may very

well try to become better and more successful by sleeping less, in the vain hope that you can get more done, but this is the opposite of what you need to be doing. Without sufficient sleep, you will most certainly be unproductive. You may even find attention deficit disorders kicking in. There is ample documentation to suggest that sleep deprivation engenders a host of problems, from impaired decision-making and reduced creativity to reckless behavior, paranoia and weight gain. A “sleepless” body has higher cortisol levels (the stress hormone), and higher concentrations of cortisol force the body into survival mode, and that results in the body storing more fat. We vary in how much sleep we require; a good rule of thumb is that you are getting enough sleep if you can wake up without an alarm clock.

Diet also plays a crucial role in brain health. Many hardworking people habitually inhale carbohydrates and sugary snacks, and that causes their blood glucose level to yo-yo. This leads to a vicious cycle as rapid fluctuations in one’s insulin level further increases the craving for carbohydrates. The brain, which relies on glucose for energy, is left either gluttonous or gasping, neither of which makes for optimal cognitive functioning.

The brain does much better if the blood glucose level can be held relatively stable. To do this, you should avoid simple carbohydrates containing sugar and white flour (pastries, white bread, and pasta, for example). Rather, rely on the complex carbohydrates found in fruits, whole grains, and vegetables. Protein is important: instead of starting your day with coffee and a Danish, try tea and an egg or a piece of smoked salmon on wheat toast. Take a multivitamin every day as well as supplementary omega-3 fatty acids, an excellent source of which is fish oil. The omega-3s and the E and B complex contained in multivitamins promote healthy brain function and may even fend off Alzheimer’s disease and inflammatory ills (which can be the starting point for major killers like heart disease, stroke, diabetes, and cancer). In addition, moderate your intake of alcohol, because too much kills

brain cells and accelerates the development of memory loss and even dementia. As you change your diet to promote optimal brain function and good general health, your body will also shed excess pounds.

If you think you can't afford the time to exercise, think again. Sitting at a desk for hours on end decreases mental acuity, not only because of reduced blood flow to the brain but for other biochemical reasons as well. Physical exercise induces the body to produce an array of chemicals that the brain loves, including endorphins, serotonin, dopamine, epinephrine, and norepinephrine, as well as two compounds, brain-derived neurotrophic factor (BDNF) and nerve growth factor (NGF). Both BDNF and NGF promote cell health and development in the brain, ward off the ravages of aging and stress, and keep the brain in tip-top condition. Nothing stimulates the production of BDNF and NGF as robustly as physical exercise, which explains why those who exercise regularly talk about the letdown and sluggishness they experience if they miss their exercise for a few days. You will more than compensate for the time you invest on the treadmill with improved productivity and efficiency. To fend off the symptoms of attention deficit trait (described earlier in this chapter) while you are at work, get up from your desk and go up and down a flight of stairs a few times or walk briskly down a hallway. These quick, simple efforts will push your brain's reset button.



## CHAPTER 6

# **KNOWING YOURSELF AS A TRADER**

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*“... all men are created equal ...”*

Thomas Jefferson, U.S. Declaration of Independence

## **DEFINE YOURSELF AS A TRADER**

**T**his section was inspired by an email I received from Nick on a considerably less emphasized element in trading

“One thing I was happy to find out (that I think isn’t emphasized often enough) is that even within the confines of day trading, there are still different time frames you can choose to focus on.

For those who enjoy the high-intensity thrill of split-second decisions, “scalping” fast-moving stocks is a great skill to acquire. Is it risky? Yes. Fast-paced? Definitely. But there’s also no wait time. It’s immediate gratification (or disappointment). Granted, there may not always be constant opportunities throughout the day for split-second scalping, but there will almost always be several chances at the beginning of any given trading day.

For those who may not enjoy such a high level of pulse-raising stress, it’s just as easy to focus on longer time frames, like the 5-minute or 15-minute charts, and have more time to spot emerging patterns, such as trend reversals or ABCD patterns. The reward may not be as instantaneous as scalping, but for anyone with a little bit of patience, this can be a great way to

really take the time to look at all of the indicators, and then decide if it's definitely a trade worth taking. In my opinion, it's a better pace for beginners, since it's not so overwhelming, and these longer time frames are what I'm currently focusing on."

The quotation "all men are created equal" is part of the U.S. Declaration of Independence, which Thomas Jefferson penned in 1776 during the beginning of the American Revolution. The phrase was present in Jefferson's original draft of the Declaration. To (badly) paraphrase that well-known statement, we say: "not all trading is created equal". There are several styles of trading and you must figure out what type best complements your personality, risk tolerance, account size, and time available for trading. The three main types of traders are:

1. Day traders
2. Swing traders
3. Position traders

Swing traders hold on to trades for a period of time that can range from several days to several weeks. Swing traders do not need to monitor their charts throughout the day. They can make sound trading decisions by spending only a couple of hours each night analyzing the markets. Position traders are those who have trades that last for several weeks, months, or even years. Yes, even years! These traders need to study and understand the fundamental themes of the markets in order to make solid trading decisions.

Each style of trading has its own features and demands its own risk and money management. For day traders, timing is extremely important. Swing traders have easier entries and exits as they hold stocks overnight. For position traders, it is not about timing the market at all. It is about time in the market. The risk is also different for each type of trader. Day traders try to make 1% to 2% of their account daily. Swing traders are happy with a 3% to 4% profit on each trade every few weeks, and if a

position trader can generate a consistent return on their account of 15% a year, they will be a rock star manager on Wall Street! Most position traders cannot even beat the market (defined by many as the growth each year of an exchange-traded fund known as the SPDR S&P 500 ETF Trust (ticker: SPY), which tracks the S&P 500 index).

Day traders work with small accounts that range from a few thousand dollars to 40 or 50 thousand dollars. There is no need to have any further funds set aside because the market is not liquid enough to day trade with larger sizes. Average prop traders have a buying power of around \$100,000, and that buying power can easily be achieved by so-called “normal” retail traders with \$30,000 cash in a margin account. Swing traders often diversify their trades through accounts worth tens of thousands of dollars to several hundred thousand dollars. Position traders often trade large investment and retirement accounts worth several millions of dollars. You cannot day trade with a million dollar account. Similarly, you cannot swing trade with a \$10,000 account and gain any sort of meaningful results on a daily, weekly or even yearly basis.

Aside from the different styles of trading, there are also significant differences among day traders. You need to find what type of day trader you are best suited to be. As a day trader, you can trade penny stocks, which are usually low float stocks valued at less than \$5 and which move wildly intraday. At the other end of the scale, you can trade as I do, which is mostly mid float stocks with floats in the range of 20 million to 1 billion shares and a price range often between \$10 and \$100.

What you trade will also have an effect on your result. Traders can trade everything from equity stocks to the currency market to more complicated instruments such as Options, Futures or contracts for differences (CFDs). Each has its own advantages and disadvantages. To me, the simplest of all is to just directly trade equities.

Trading low float stocks is very difficult for the new trader. It is difficult to read the direction of their next move, and therefore they are very difficult to manage your risk in while trading them. I always discourage novice traders from trading low float stocks. When the new trader is wrong, the loss is such that it wipes out many gains.

Hossein was a smart trader in our community. He started trading and was making consistent profits every single day, way over his average daily goal of \$100. But he could not resist those low float garbage penny stocks and eventually lost \$3,000 trading them. He knew he should have stopped earlier, but he did not. He wrote to me:



“

“Hey Andrew,

I started trading with real money after 4 months of studying and paper trading and when I was pretty confident that I could handle trading with a real account. But the psychology aspect of trading was so real and a completely different animal. Although I got lucky in the first couple of days and was making a lot more than my daily goal, I never forget the moment that a trade turned against me and I really had a hard time to focus on my trade and hotkeys.

I learned that I should have always been prepared for the worst scenario, and respect my mental stop losses just like hard stop losses. It was an expensive lesson to learn, that it is all about saving your money for better opportunities, which is translated to ‘cut your losses fast.’ I was in many positions that I knew were going to move against

me, but just because of not hitting my stop loss, I was forcing the market and insisting on my positions. That was one of the mistakes that made me pay a lot.

At first, I was planning to have a small consistent daily profit (\$100), but soon after the first month, when I lost \$3,000, I changed it to surviving my learning curve. It took me a few months to overcome my FOMO [fear of missing out] when watching everybody taking trades with big positions. I had to remind myself that other people in the chatroom have different risk tolerance, account size, and even money personality. It needs a lot of practice to ignore watching other people cheering and posting their profits, while you are having a red day and in a desperate need of one profitable trade. Remember that FOMO equals chasing, and chasers are the losers in the market.

Never forget that trading is a process of knowing your reactions when things go in your favor and also when they go against you. If you do not feel comfortable taking low float stocks and you get emotional when you see the stock jump too fast, then switch your strategy to mid float stocks that move slower and make better patterns. Once you find a trading strategy that works best for you, then stick to it. Practice always makes perfect! I lost \$3,000 trading low float stocks, and I wish I could have left them alone sooner and saved my money.

Always be ready to admit you were wrong and save yourself. Being wrong is much better than being sorry and broke.

I lost \$3,000 in the first month of my trading to learn these simple things, and learn that I have to adjust my mentality and expectations.”

“Nostalgiaguru” posted the following questions to our forum:

“

“After roughly 4 months in the simulator, I have found myself doing lousy in mornings, but actually quite well in the afternoon, 2:30 pm and later, working off of the 15-minute candle (8 of 10 green days most recently). Should I place my emphasis on the afternoon accordingly? Does my mindset and personality make me better in the afternoon—is that even possible? Or, if I rarely do well in the morning, am I doing something wrong? I still hang out in chat pre-market to find out in-play stocks (after I’ve already come up with some of my own).”

Skye was the first to respond:

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“I think it can be easier to trade in the afternoon. Things move slower so there’s more time to think. Also, you can see the chart in the previous hour or two which helps. Ultimately, the morning is where the money is, but I think there is an argument to be made for trading in the afternoon while still building your skills.”

“Nostalgiaguru” followed up with this question to Skye:

“

“When you say morning is where the money is, I assume you are referring to volume?”

Skye agreed that the morning is where the volume is:

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“Yes, things happen much faster, so easier to get in, make your money, and be done quickly (when you’re good enough).”

Jason highlighted in his contribution to this thread how afternoon trading has best served him:

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“I’ve had a lot of success in afternoon trading. Morning trading is fast and furious, but afternoons tend to have quick hits on the scanners and, more frequently, up and down trends you can ride slowly and steadily to profits. It’s also, as Skye said, slower moving, so you have time to think.”

In response to a later question about what scanners he uses in the afternoon, Jason noted:

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“I watch the LOD/HOD [low of day and high of day] scanner and the irregular volume scanner.”

Peter S added:

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“They do say that pros like to trade the first and last hour. Of course, I don’t know if ‘they’ know what they’re talking about. But it’s certainly possible that the back end of the day is better for you. The start is frenetic, I often wish the first 10 minutes could be stretched out over an hour to assess all of the possibilities. It does seem that 2:30 pm can be a good sort of time to be watching for reversals to set up.”

William H wrapped up this thread with the following very detailed post, responding to the specific questions that “Nostalgiaguru” had initially posted:



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“This is great insight into your trading. Let’s answer each question . . .

Should I place my emphasis on the afternoon accordingly? A smart trader puts emphasis on wherever they find success. You can see many of us in the [Bear Bull Traders] room have completely different trading styles. Some like high priced stocks, some like mid floats, some like 15-minute candles, some like 1-minute price action and some like 5-minute candle setups. . . etc. We can put your question in the same category. Some traders thrive in the early morning with the extra volatility, while others get eaten alive and chopped up. If you find yourself losing money in the open, and making money in the later hours, it is very reasonable to conclude that your trading style is better suited for the later hours.

Does my mindset and personality make me better in the afternoon—is that even possible? YES, it is definitely possible. Maybe your personality and mindset makes the extra volatility in the morning very difficult to trade. Maybe you find yourself revenge trading after being wrong and caught in chop, and then seeing a trend go without you, while in the later part of the day, trends have already taken shape, everything is slower, and you have more time to read and analyze the charts and build a game plan. On top of that, not everyone can function fully in the early parts of the morning. Some people thrive later in the day, after they are fully awake and prepared.

Or, if I rarely do well in the morning, am I doing something wrong? Trading is very, VERY difficult, and just because you don't do well in the morning and do better in the later hours, does not mean you are automatically doing something wrong. It means you potentially found an amazing solution to your specific trading problem. Which is, you trade poorly in the morning, and trade better in the later hours . . . so put your focus on the later hours.”

Choosing a trading style requires the flexibility to know when a chosen trading style is not working for you. It also though requires you to have the consistency to stick with the right trading style when it is not performing optimally. No matter what style you choose, you have to make sure that it truly fits your personality and risk tolerance. If either one is out of sync, you are going to be fighting yourself every step along the way. Once you do find a trading style that really works for you, do not constantly be changing it, because that can lead to trouble and inconsistent results. Try as many styles as possible and see which one works best for you. If you try scalping low float stocks and you realize after a week that it's too fast or too draining, then be flexible enough to switch it up.

Knowing if you are trading the right style is difficult to surmise but, luckily, you have an objective metric that you can use to assess your progress. This metric is your trading account balance. It does not lie to you, it has no feelings whatsoever, it has no compassion, and it does not care in the least about how you are feeling. It is strictly a measurement of whether or not what you are doing is working. If your equity curve has a positive slope, continue refining your style. But, if your equity curve has a negative slope, you should give serious thought to finding a different style that is more suited to your personality.

## **BE REALISTIC**

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I've found over the years that one standard question many new traders will have is a variation of: How many trades do you need to take before you start making money? One of our members, Kurt, posted in our forum the following excellent response to this question:

“It took me over a year to become a consistently profitable trader. I was one of the dumb ones, and decided that I didn't need to use a simulator account and that I could just learn on the fly. Well, over \$30,000 in losses later, I changed my mind.

I hit the books, watched videos, and traded in the simulator for 3 months before I started trading live again. And, when I did trade live, I started with 100 shares (or less) per trade, and only increased my share size by 25 percent each week if I had a profitable week. It took me about 4 months to reach my current position sizing.

When you're first getting started, DON'T focus on the money. Focus on quality setups, respecting your rules, and most importantly, MANAGING YOUR RISK.

Mahmoud wrote about how important it is to be realistic about yourself, your trading situation, and the expectations that you have for your new career path:



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“Like many people, I have always wanted to be freed from American corporate, but being a father of two, a husband, and a financial support to my parents, I know I cannot exit my current source of income without making a smooth transition to another stable source of income. The slightest ripple could cause some irreversible damages from which it would be hard to recover. I was trying to accelerate my learning process because of my selfish need to exit the American workforce, but this was not helping at all. The closer I was getting to January 2018 (my presumed date to start trading with larger capital), the more I was creating pressure on myself, and worse was my trading performance. I realized a key element to the process of learning trading was to remove all of the surrounding stress. It is weird to think in the following way, but I needed to be ‘positively selfish’ and not care about everything else, yet with the means to care about everything else. I have redefined my metrics of trading, not to earning, but rather to an immaculate decision process.

The book, ‘How to Day Trade for a Living,’ mentioned the importance of psychology and to take time to learn the process. The first adjustment I have made is to change the date of January 2018 as my initial ‘graduation in trading’ to nearly 12 months later instead. Moreover, I need to prove from the simulator that I am averaging an acceptable personal income constantly with reasonable daily loss. I am comfortable with that decision, and I want to stop counting the days, but rather focus on the small incremental progress. Trading has been such a good

experience in my life because it is such a perfect reflection of myself, but I know it can come at a hurtful cost. I realize I need to be at the best of my mental and physical state to perform at the highest level.”

Mahmoud is right. For many new traders, success means making a living from trading, and usually in a very short time frame. This expectation is dangerous and often generates frustration and discouragement. I always emphasize to novice traders that trading is a professional career. Do you know of any professional who can make a living from their work during their early years of training and expertise building? Doctors, surgeons, attorneys, engineers, even professional athletes, spend years in college, university, residency, apprenticeship, articling, etc., before officially starting their high-paying career. Actors or actresses typically spend years in lessons and regional theaters before they land their first money-making contract. There is no path to professional expertise that doesn't initially require a considerable investment of time in order to develop the required competence.

As Mahmoud wrote in the above excerpt from his submission, expecting to make a sustainable living from trading within the first few months of exposure to day trading is simply unrealistic. More realistic expectations include keeping your losses at a tolerable and reasonable level, trying to consistently profit small so that you can cover your trading costs (such as commissions and software and platform fees), and most importantly, improving your trading processes.

You may very well ask then: How long will it take to become a successful full-time trader?

In 2008, Malcolm Gladwell published his *New York Times* best seller, *Outliers*. This book looks at a number of “outliers”, people who are extraordinarily skillful in certain subjects. In breaking down what helped them to become outliers, Gladwell introduces the 10,000-Hour Rule as “the magic number of greatness”. His findings are based on the published research of Swedish psychologist Anders Ericsson, an internationally recognized researcher in the psychological nature of expertise and human performance. According to Gladwell, one common factor among these exceptional “outliers” was the amount of time they practiced within their chosen field. It appeared that one could only become an outlier by accumulating 10,000 hours of practice (that’s close to 90 minutes per day, every single day, for 20 years). To use another of Gladwell’s popular terms, 10,000 hours is the “Tipping Point” of greatness in any profession or sport.

10,000 hours. Well that’s a very scary figure! If Gladwell and Ericsson’s conclusions are correct, and you spend two hours trading every day, you will be trading 10 hours per week, and considering that there are 52 weeks in a year, it will take you 20 years to become a successful full-time trader. If you can invest 20 hours each week into trading, it will take you 10 years. Most of the new traders in our community are entering the world of trading after a successful career in engineering, corporate life, military service, or some other business or field of endeavor. They will have already invested many, many hours into their career. Who really wants to, or who realistically can for that matter, spend another 10,000 hours on a new career at that stage of their life?

The truth is, although becoming a world-class expert in anything whatsoever will indeed take years, you do not need to become an “outlier” in trading in order to make a living. You can achieve a basic level of competence in trading (or in fact in any other field) in a much shorter time. **However**, you need to find the experts and you need to get the right materials. With proper

education and practice, you may expect to make a living from trading much more quickly than people in the other professions that I mentioned. You will be able to sustain a livelihood, but if you try to set a date as Mahmoud did, you are setting yourself up for frustration and failure. Elsewhere in his submission, Mahmoud shared an excellent antidote to these toxic assumptions. One of his new goals is to *“appreciate the good trade instead of the earning.”* He is committed to trading well and developing over time. This is also one of my own trading goals. I want to trade well. I do not care (much) about the money that I make every day. I am very happy if I average a one percent return on my portfolio each day. I am not focused on the profit though. I am focused on the process of being a good trader. A one percent return may not be a realistic target for you, depending on your level of development and your risk appetite as a trader. What is important is not your target number, but rather the fact that you have developed realistic and achievable goals for your trading and that you are slowly but surely building your trading skill set. If I trade well, I feel a sense of pride and accomplishment. If I trade recklessly, which actually happens more often than you might think, I will do my best to quickly identify what is happening, walk away from my station to take a little break, and try to make the necessary corrections such as reducing my share size or even switching to the simulator for a while.

My recommended formula for developing your trading skills is always to expect success, and always to define success as the making of good trading decisions—not to focus on absolute profitability in terms of days, weeks, months, or years. An attorney will do their best on a case, and they will be hopeful that their client will receive a substantial settlement offer or win at trial, but in the back of their mind they will not be constantly calculating what their final fee will be. Do not focus on the money, and do not dream about what your profits will buy you, because if you do, then you will start trading recklessly.

A great entry in your trading journal or recap is your response to the question, “What made my trading day a success today, even if I didn’t make any money?” In addition, ask yourself what bad trading decisions you made, even on the trades where you actually did make some money. These simple questions will lead you toward thinking about the process of trading rather than being burdened by emotions like overconfidence or frustration.

This approach to learning trading was also emphasized by another member of our community. Nick wrote:



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“Overall, the approach I’m taking with day trading is ‘slow and steady.’ I’m not trying to make huge profits every week. In fact, right now my only goal is to stay above my break-even point. That would be nice, because I’m at the beginning of a journey to learn a new skill, and the most valuable thing for me is experience. I’m focusing on accumulating screen time, working on being patient, and really learning to develop the ‘6th sense’ that many successful traders have when it comes to analyzing the data and reading the charts. Slow and steady wins the race, and if you’re new to trading, one of the best pieces of advice I can give you is this: Do your best to put yourself in a position where you don’t have to make a lot of profits immediately. Give yourself time to learn, and room to make small mistakes. Because it may take a long time to build the necessary skills to be a consistently profitable day trader, but once you have them, you’ll always have them.”

Imad, another trader in our community, correctly uses the analogy between trading and having a high-reward but demanding career, such as that of a medical doctor. Would you expect a doctor to become a well-respected surgeon after just three months of simulated surgery? Even more so, would you want that person operating on you? Let's read Imad's submission:

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“One of the reasons there is a high rate of failure in day trading is that there are no prerequisites or prescreening for new traders. The high earning potential and low barrier to entry attract many from all walks of life. In order to begin trading, all that is required is a modest amount of cash and some computer know-how.

Let's contrast that with becoming a physician, where the risks and rewards are often extreme and of enormous consequence, in many ways similar to day trading. Before even applying for medical school, a future doctor must first excel academically in very demanding undergraduate coursework including the dreaded 'washout' class known as 'Organic Chemistry.' It's an unapologetic way for colleges to separate the wheat from the chaff! If one can successfully navigate such rigorous coursework, and if they live in the United States, Canada or a few other countries, they are then in a position to tackle the MCAT examination. Medical schools only want those who have the aptitude to succeed and also the resoluteness to put in the hard work necessary in order to successfully graduate. Medical school, after all, is an expensive investment! And what is the

end result? If you can jump through all of these hoops, the failure rate for medical students is low and the expected salary after graduation is high.

In day trading, on the other hand, there is no such screening process. There is nothing keeping someone from wagering a lifetime of savings based on a mere hunch or a newsletter tip, yet the consequences of such uneducated actions can have dire ramifications for an individual and their family.

The attributes that can get someone into medical school are often nurtured early on. These are the same attributes that allow a prospective trader to weather the storm of losses that will inevitably occur during their learning curve. The nature of day trading is a consequence of what can be an extraordinarily volatile stock market. It requires difficult decisions to be made within seconds to prevent a winning trade from potentially turning into a devastating loss.

Given this reality, why are so many people under the illusion that they will be able to jump into day trading and immediately see success? Well, a large part of it has to do with survival bias. It is much easier to find examples online of individuals who have succeeded as day traders, whereas those who have failed often recede into obscurity. After all, not many people are willing to air out their failures for the world to see. Consequently, this causes many hopeful traders to have inaccurate and unrealistic expectations regarding the success and failure rates of those who attempt to trade the stock market.”

## **FOLLOW NO ONE**

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The previously mentioned Dr. Brett Steenbarger, the author of such helpful books as *The Psychology of Trading* and *The Daily Trading Coach*, once wrote:



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“There is no question in my mind that, if I were to start trading full-time, knowing what I know now, I would either join a proprietary trading firm or would form my own ‘virtual trading group’ by connecting online (and in real time) with a handful of like-minded traders.”

Trading alone is very difficult and can be emotionally overwhelming. You need to be part of a mastermind group that will add value to your trading career. To whom can you turn to ask trading questions? I encourage you to join a community of traders. It is beneficial to join a community of traders and ask questions, talk to them if needed, learn new methods and strategies, get some hints and alerts about the stock market, and also make your own contributions. Online trading rooms are excellent places for meeting other traders, and they can be powerful learning tools.

Think about the comfort you get when you know someone else is experiencing the same situation as you are. You no longer feel lonely or that you are all by yourself. For our community at least, it does not matter if you have been with Bear Bull Traders for a day or for three years, if you have something that will help the community, traders are willing to listen. For instance, we had a trader who provided a Hotkey script to the community in

a forum post. That one relatively simple post utterly changed how the community was looking at risk. No longer was the focus on share size. It instead shifted to how many dollars per trade were at risk. This is just one example, but there are hundreds of more situations where members of the community have provided valuable information that benefited virtually all of our traders regardless of their level of experience.

You will also notice that even senior traders often lose money. It can be comforting to see that losing money is not limited to you, and that everyone, including experienced traders, has to take a loss. As I've said, it's all part of the process.

It is extremely important to remember, however, that you should not follow the pack. You need to be an independent thinker. Don't blindly follow the crowd but do partake of the benefits inherent in being part of a trading community that fits with your personality. People often change when they join crowds and become more unquestioning and impulsive. Stressed traders nervously search for a leader whose trades they can mirror. They react impulsively with the crowd instead of using their own common sense and reason. Chatroom members may catch a few trends together, but they will also get killed together when trends reverse. Never forget that successful traders are independent thinkers. Simply use your judgment to decide when to trade and when not to. Many of our traders commented on this topic in their submissions.

Rick wrote to me that:

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“One of the biggest events in my trading life that helped me get consistently profitable was something that you note in chat each day.

That is a trader must NOT try and just follow a chat room's moderator. You very astutely note this each day in chat.

I believe that most new traders truly believe they can follow someone, like you, and be instantly profitable. However, this is simply not possible. I have learned with your help that to be successful, I must only trade setups that fit my personality. What this does is give me supreme confidence in the trades I take because I know that more times than not my setups work. This psychology or confidence in these setups makes it easy for me to trade them, to hold them for defined targets, and to not be shaken out quickly if they don't immediately work. Most of my setups work quickly, so if they don't act as they should, I am out fast anyway.

I firmly believe that new traders must take the time to learn the setups that fit their personality, and then block out all of the other noise (of which there is a lot), and then trade 'their' setups. When I began trading, I truly felt that all I had to do was follow a very good trader and that I could easily mirror their results. This is something that I now firmly believe is not possible to do.

For me, your chat room has enabled me to watch closely just a few stocks that are in play each day. I watch them closely but will only take a position when I clearly see one of my favorite setups. Generally, I do take a trade or two in one or two stocks that you trade each day. However, my entries are not the same entries that you take. Yet, I am consistently profitable just like you are.

Each day I print out the charts of trades I take that meet my criteria for my favorite setups. I put these charts in a binder which I keep in my office. I have a note on my desk which I look at each day, which says: Rick, only take

'picture-worthy' setups. This means that if a setup is not good enough for me to print and put in my binder, then DON'T take the trade!

Thanks for running such a first-class site! Your chat room is excellent and so are your classes!"

In the contribution that follows, David shares how he could not book a \$1,900 profit because he was consulting with some market "gurus" on StockTwits. Instead of looking at his chart and sticking to his trading plan, he was desperately trying to learn what other people had to say about that stock in their postings on social media. This is part of David's story:

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“Andrew,

Here's a very real example from October 2017: I was climbing with Helios and Matheson Analytics Inc. (HMNY) during their run-up from \$2.50 to ultimately the mid \$30s in a little over a month's time. I fancied myself a genius since I was pulling \$300 or \$500 out of the market at the end of each day. I didn't realize that it was hard to fail with this ticker at the time, and this pride, of course, brought me to a fall. The day the stock topped out, I had gained \$1900 for that day. Instead of securing my profits, I ended up keeping my money in because I was consulting the 'wizards' over at StockTwits. When I filtered all messages to only talk about HMNY, it seemed like the entire world was buzzing with bullish excitement, and that in turn caused me to keep my money in.

Of course, it takes but one look at the charts to see how wrong I was for choosing this decision. It dropped to the high \$20s the next day and continued its way down. Of course, since it seemed like past behavior was going to guarantee future success, I still kept my money in. It went down to \$22 and I finally got out. However, when it went back to \$19, I thought the stock was a bargain. Why? Because I was prideful. I had to play catch-up. Instead, I was catching knives. I did this a few more times as its bearish trend continued all of the way back down to the \$5s. The shorts were laughing as my losses were officially greater than my gains. As I said before, this caused me to take a long break from the market while I hit the books and started making more simulated trades to figure out not just what went wrong, but ultimately what I would be able to do right in the event that I would like to get back in the market.”

The desire, maybe it's even a compulsion, to follow others, is a common struggle in trading. Kerry, a veteran trader in our community, has survived many market ups and downs. He wrote:



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“Sometimes I ask myself, ‘How did I get into this trade?’ Is it because I just wanted to buy something, anything? Is it because Ryan or Bob is in it and they like it, and they are way smarter than me? Is it because I read that BABA or CELG was on a hot streak? Did I even bother to look at charts or consult my indicators? Being lazy is easy work, but it won’t make money. I almost wish my broker

had an extra step in trade placement with a question, ‘Why are you placing this trade?’ Mentally, if I don’t have my target and stop loss prices in mind, I cancel placing the trade. The plan is critical since I don’t know what the market will do, but I am able to plan what I am going to do. Over and over again, too many times to count, I have made the mistake of buying stock recommended by other people without knowing why I bought it. Really, it stops me from placing trades if I don’t have my exact prices defined. Trades can be placed with such liberty and ease using technology today, it’s important to wholly weigh the benefit of the trade against the damage it can do to your account.”

We encourage all new members, and even the “not-so-new” members, to post a write-up about themselves in our forum. I want to share this contribution with you from “applejack003”. He makes many good points in his post including, *“If there is one thing I’ve learned during the last 6 months of trading, it is that we have to learn how to be a trader who makes his/her own decisions. Learn how to trade independently, becoming someone who prepares and trades his or her own plans.”* Here is his post:



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“I’m from Toronto, Canada but live near Quebec City, Canada. I’ve been day trading since August 2017.

My background is in IT and language teaching. I’ve been a lifelong student of foreign languages.

I know too well that it takes a lot of time and effort to be fluent in a foreign language, but I didn't see trading that way at the beginning.

I had some beginner's luck but gave it all back to the market and lost some more.

At the beginning, I had an unrealistic expectation about trading. I was chasing a pie in the sky, hoping to make \$\$\$ and to start jet-setting around the world in less than a year. It probably came from my own ignorance, high hopes and also not knowing any real trader around me who trades for a living. Also, I was somewhat influenced by the people who are selling misinformation about trading while flashing their extravagant lifestyle on the internet. You know? The ones showing their fast cars, expensive champagne that they drink and model-like girls by their side, while they can trade on a laptop with a parasol over their head on a sandy beach somewhere exotic.

Also, like many beginners in search of hot stocks that will multiply their account size the next week, I subscribed to some paid newsletters that give stock picks. But I quickly learned that these people are mostly analysts and writers and not traders themselves. I guess it can be a lucrative business.

If there is one thing I've learned during the last 6 months of trading, it is that we have to learn how to be a trader who makes his/her own decisions. Learn how to trade independently, becoming someone who prepares and trades his or her own plans. When I read Andrew's book, I was quite happy to find that he emphasizes this point as well.

I think I didn't do too badly considering that I didn't fund my account by borrowing money and I haven't experienced a catastrophic loss (I feel really sorry for the people who mortgaged their houses to buy Bitcoin at the top in December, 2017. That is truly a sad way to go.).

Here's a summary of the things I've learned over the first 6 months of trading:

1. I've learned and practiced how to go both long and short.
2. I've learned how to be quick with hotkeys on my platform.
3. I've learned some technical analysis and trading strategies and tactics.
4. I've learned how to manage risk properly according to my account size.
5. I've lost enough times to become more desensitized to being wrong and losing money.
6. I've learned that it's not what you know that makes you money, but being able to manage your emotions and risk in live trading.

Yet, I'm still a beginner and there's no guarantee that I will succeed unless I do my best to keep myself in check before I wreck my account.

My primary focus is to learn how to be a trader who makes good trading decisions even though I count my chips as soon as I'm out of my trades.

I'm keeping a journal of every trade to be accountable to myself."

In a similar vein, you should not worry about the P&L of other people. One day, back in 2018, I made a very risky move and had an unexpected windfall from it. In all honesty, I should not have gone so big on a particular stock, and decided in the end not to share my P&L with “the world” as I often do in my trading recap. I thought there was no point in sharing a P&L that came from a risky move. I did not want to give a false impression to people and I believe that is one of the differences that sets me apart from other educators out there. I try to be as honest as possible in everything I do with Bear Bull Traders. I almost always share the bad and the good. Nevertheless, the chatroom was abuzz with my decision. A selection of the comments that were posted on our forum follows:

Robert was the first to post:

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“Why are people so fixated with Andrew’s big gains today? I know most of us in the chat were just joking around and busting his chops, but there are people who seem really bothered by him not sharing his P&L. One chat subscriber sounded like he was robbed or deprived of something he was entitled to as a paying member. Another guy is calling Andrew a flat-out liar. What am I missing here?

I respect Andrew’s decision. Firstly, I am more concerned about my own performance than anybody else’s--whether that be another trader or a mentor. Secondly, what are we going to learn from the dollar figure? Andrew took abnormally large sizes on FORD today. The chat knew it, he knew it. It was the perfect example of how not to manage

your risk as a trader. If the trade went south, I'm sure Andrew would have used it as a learning opportunity for the rest of us. 'You learn more from other people's failures than their successes.'

After having posted his wins and losses in over 200 YouTube videos--from +\$3,000 to -\$1,800--I think Andrew has every right not to announce his monster win. Most traders would be yelling from a rooftop right now. Andrew trades with us every day and invites the entire world to watch him at his best--and at his worst. I think a moment of privacy is well deserved.

Back to my original question. Do people want to fantasize about making the same amount one day? Do they think he is hiding something from us? Bragging rights that their chat is better than another? Or is it just plain curiosity? Please help me understand this infatuation with the dollar figure."

Lee W posted:

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"First, let me say that I completely agree with you, Robert. I respect Andrew's decision to not show his P&L. Even if we take the same trades, many will have different P&Ls due to share size. Of course, share size is determined by account size, risk management techniques, and our own psychology. I don't need to see Andrew's P&L to learn the techniques. I just need to learn strategies by being shown wins and losses, not amounts.

Let's remember that money is probably the biggest motivator when it comes to just about everything with many people, if not most people. When you look for a job, one of the first criteria—after determining the job field—is the pay. A lot of people will automatically think the higher-paying job is better for them, simply because of the higher pay. I'm certainly not saying this way of thinking is the right way or wrong way, I'm just stating how I think most people approach something like this. I think the same thing goes for trading. When people are watching YouTube, they associate big wins with big success. To them, these big wins = better trader. As we all know, many of those traders that show their big wins rarely show their losses. Those losses help us learn, though. That's one of the many reasons we like Andrew's style. He teaches strategies by showing us his wins AND losses. This statement is so true:

*'You learn more from other people's failures than their successes.'*

I do think some of it is curiosity, but mainly I think that many people, in general, are attracted to the money. That's why so many YouTubers that show their fancy cars' lifestyle have so many followers. Perhaps people want to live vicariously through those YouTubers. Some just want inspiration. Some just want entertainment.

In the end, though, there will likely always be people that complain. 'You can please some of the people all of the time, you can please all of the people some of the time, but you can't please all of the people all of the time.'

Thank goodness I'm in this community. I'm thankful to have found Andrew, Brian, and this chatroom. I enjoyed Andrew's book, I'm learning more each day from everyone

in this community, and I don't have to filter out the nonsense that so many other chatrooms and traders show."

Robert then responded:

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“Thanks for the insight, Lee. You provide some valid points regarding people wanting to live vicariously through others. I guess that's why reality TV and celebrity lifestyle shows are so popular. The premise is wealthy people showing off how rich they are, in turn earning themselves more money. And this leads to even more followers. I hope Andrew doesn't go out and buy a Lambo--the chat would be flooded overnight lol.

I understand people's attraction to money; I used to be a slave to the dollar myself. I think that everybody knows trading can be lucrative. This attracts all sorts of risk-takers, gamblers, impulsive, lazy people, etc. I guess these individuals need to see what successful traders are earning in order to validate their own objectives and goals. Perhaps justify the sacrifices they are currently making on their journey to become a professional trader? For me, day trading is a ticket to freedom. Something to cover my necessities so I can pursue other passions and spend valuable time with loved ones.

Much like you, I am confident enough with Andrew's strategies to not really care about his daily P&L. He has already proven himself with his book, teaching, track

record, online presence, etc. Personally, the daily fluctuations in someone else's bank account has zero effect on my life. Which reminds me of an old saying: Don't count other people's money."

"David from CT" commented:

“

"If people in the chat 'really' want to learn, they will pay attention to opinions from some members like Robert and Lee above. You two, amongst a few others, are the learned and sane ones. It took me almost a year to join a chatroom because the very first book I read on day trading in 2016 warned against them. I am truly glad that I joined this particular chat as it has members like you guys and is captained by Andrew. If people have an issue with you keeping any particular aspect of your trading to yourself, they can go scratch. We are not here to learn every minute detail of how you actually trade and how much you make, we are here to learn how to trade for ourselves. Complainers need to watch a nature video on baby birds jumping out of the nest...one morning you just have to get out there and jump. Trying to follow exactly how Andrew trades each time is not how to do it. Taking what you have learned and applying it is the way to go. For me personally, I was too busy Friday losing money on 100 share positions to worry about Andrew taking a \$10,000 position on FORD...if I heard correctly. Thank you Andrew for what you do, it is relevant every single

day and the community you have built is fun and supportive (most of the time it appears...). One more final thought, did you learn something about position sizing, Andrew, from your trade? I am sure you did, case closed.”

Paul then added:

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“Aloha, this is the reason I really enjoy this chat room, that most are very like-minded like Robert, Lee, and David, and many others. I am here to learn from someone I have grown to respect and personally think to be by far the best educator. I have grown exponentially as a trader, thanks to Andrew. I have enjoyed watching him and his P&L grow but his decision to not post his P&L actually made me respect him that much more. To know that it can give an unrealistic expectation from those that follow and a desire to duplicate.

Lastly, “laurnew” wrapped up the thread with:

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“Robert....personally, I think it's a guy thing. People just poking other people to get a rise. After all, it doesn't really matter 'why.' People want to be respected for their

choices, and so they need to respect the choices of others. Super cool the way you guys stick up for each other though. I like being a part of this sophisticated, caring and super comical group. :))”

Here is Mike’s and my conclusion for this section: do not waste your life trying to live someone else’s life. Similarly, do not focus on other people’s trading performance or profit and loss. Stay independent and do not try to trade like anyone else. Build your *own* TradeBook for each strategy you trade.

## **SELF-REFLECTION**

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The first step in improving your trading is to set time aside for self-reflection—every day and every week—because that is how patterns of behavior will turn into habits. When you look at the lives of people who have been successful in their field of endeavor, whether it’s trading or something quite different, you will see that the vast majority of these people have made self-reflection and self-development a part of their regular routine.

In his landmark book, *The Daily Trading Coach*, Dr. Brett Steenbarger emphasized the importance of self-development for traders:



“

“The first step in becoming your own trading psychologist is to set time aside for self-mentorship—every day, every week—because that’s how behavior patterns turn

into habits. The great individual is simply one who has made a habit of self-development.”

Self-reflection is a difficult task to undertake, as we tend to see ourselves the way we want to see ourselves. We oftentimes discount our weaknesses and overemphasize our strengths. Additionally, we don't take into account our blind spots, because of course if we did then they wouldn't be blind spots anymore, each would either be a weakness or a strength. In order to perform an in-depth self-reflection, you need to first come up with a plan of how exactly you will approach the process. It sounds easy, but it is not nearly as simple as merely looking in the mirror and miraculously having wisdom imparted unto you. This is one of many reasons why learning to trade is such a challenging endeavor.

Here is what José has shared about the importance of self-reflection:



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“I initially started swing trading with a community of traders. It was difficult to save the initial funds since any extra income typically went to my parents; however, I was able to start and had initial success. I had success in selecting undervalued stocks, used patience in waiting to sell and made profit in most of my positions. This initial success was likely not the best for me as a new trader since it created an overconfidence and somewhat of a cocky attitude. I was so close to quitting my day job and becoming a full-time trader. But my beginner's luck success did not last long.

In my first experience of trying to catch a falling knife [taking a reversal on a weak stock], I lost big. I had never lost this much money in my life. I immediately asked myself the following questions:

What was (were) the mistake(s)? What can I do now? What can I do to prevent something like this from happening? What should I have done before getting into any of these situations? How does this loss relate to the amount of money I expect to earn in the future? What is the big picture?

These questions tremendously improved my response to the emotional pain that can be brought by such mistakes. Self-reflection and considering the big picture in times of emotional turbulence is huge.

Questions related to the big picture include:

- Where will I be if I succeed in the world of trading?
- How will a career move change my life?
- How can my success benefit: my family, others around me, the less fortunate, myself?
- Why is it important to make these mistakes in the first place?

This thought process led me to read as much as I could about trading. In doing so, I found Andrew's trading community and was introduced to day trading. I see tremendous benefits in day trading over swing trading and feel blessed to have found this community of traders with Andrew. Learning and watching firsthand from Andrew, who is succeeding, combined with his interest in teaching others and being an advocate for our success is a truly rare find.

I cannot overemphasize the importance of learning from others' mistakes or making mistakes in a simulated environment. Overall, I highly encourage others to reflect on each mistake, envision it a learning opportunity, and consider how it relates to the big picture in life."

I am grateful to Peter, another member of our trading community, for taking the time to summarize all that he has been learning in his first few weeks as a beginner trader. I'm going to call Peter's contribution, "9 Lessons from a Newbie". He has done an excellent job at self-reflection!

"

"I have been trading for 53 trading days (10.6 weeks) in a simulator.

**Lesson 1: You might as well make all of your mistakes in a simulator, because you first need to make them in order to learn not to make them.**

Human beings learn by trial and error. Learning how to trade is like making your way through a maze. There are many dead ends that lead to consistent losses. By visiting those dead ends over and over and over again, you inculcate a recognition of them in your mind and you get your fill of them. You need to get them out of your system. You can read about the dangers of chasing a stock, about overtrading, trading your Closed Positions P&L and about having too large of a position, but until you feel the fear of missing out or the greed of holding on

to a position too long to make the big bucks and can observe it in yourself, it's not entirely real. Learning is all about doing something that's hard, until it becomes easy. Making mistakes and failing is working through the hard parts. Don't be afraid to make the mistakes. Embrace them. When we were children, learning math or spelling or reading or riding a bike was hard...until it became easy. The same is true for day trading.

### **Lesson 2: Realize that ‘what you are certain the price action will do next’ is just your imagination.**

Much of what we consider in life to be true is just our imagination, yet we are so certain. It's natural to believe that your beliefs are true. When life does not confirm our beliefs, we suffer and get angry/sad/frustrated/depressed. When starting to trade, we trade on what we believe (imagine) will happen with the price action, thinking it is certain. When we imagine the price is starting an uptrend, we jump in. ‘Knowing’ we are right (i.e., the price is going to go this way), we stay in bad trades longer, believing (desperately hoping) they will turn around, and we take profit too early because we sense (fear) that the price is reversing. We fool ourselves. When we see our supposed certainties as just imagination, then we are free to trade probabilities instead. Entry and exit points are probability plays. Allow the price action to be what it is and not what you want it to be.

### **Lesson 3: Trading is not an endurance sport.**

Even though the price will go up or down, you don't need to trade every moment. You will miss a lot of very profitable trades. That's ok. You will also miss a lot of trades

that will wipe out your account. There is enough money to be made trading only a few times each day. If you don't see a trade, then you don't have to trade. Wait for it. You even really only need a few good trades a week to be profitable. By minimizing losses, you maximize your profit. 'A penny saved is a penny earned.' When you realize this, then that removes the need to frantically get into a trade, any trade, to not miss out on the profit. Take the best, leave the rest. This reduces risk, losses and broker fees.

#### **Lesson 4: It's easy to be overwhelmed if you load yourself up.**

There is a desire to understand it all at once and a fear of missing something important. Too many stocks to keep track of, too many strategies to keep track of...narrow it down. You have a lot of things to cover (stock picking and preparation, strategy pattern recognition, risk to reward ratio, indicators, spread, volume, share size, entry, price action, trade management, target level, etc.). It's easy to be overwhelmed. When learning, focus on fewer things at one time (while the results in the simulator don't matter), until they become second nature.

#### **Lesson 5: Be patient with your learning. Allow yourself at least 3 months in a simulator to learn how to drive through the market.**

Instead of being frustrated with your initial results, be happy with your progress. When you first are learning to drive a car, you can only concentrate on a couple of items at once. By the time you have mastered it, several years later, you can listen to the radio, conduct a conversation, eat a snack and monitor the road conditions,

traffic, signs and route all at once, without hardly thinking about it. Do not expect to be able to operate at a graduate level without going through all of the grades. To paraphrase Anthony Hopkins in the movie ‘The Edge,’ ‘What one person can do, another can do.’ It’s heartening to see someone day after day being consistently profitable in the chatroom and realize that it is possible for you too. Once you realize that with persistence you will inevitably become a consistently profitable trader too, then you become grateful for your bad trades, because they are both valuable lessons that make your trading better and one more step on the path to your goal. To get a sense of your progress and allow you to realize the lessons from your trading, you must journal each trading day.

### **Lesson 6: Wait for the setup.**

There are exciting opportunities to be had by trading in the premarket and the first 5 minutes. It’s tempting to get trading right away and make your money before the market even opens or during the wild volatility of the first 5 minutes. It makes you feel like you’re trading with the pros. But it’s an expensive thrill. Trading is not a video game. It’s a more seasoned pleasure waiting for the consolidation period (it will always come) and low volume, and then picking your share size and entering, when the trade is right. This is the pleasure of reducing the uncertainty. Pick the low-hanging fruit.

### **Lesson 7: Uncertainty about the reactions of others when you tell them what you are doing.**

You need the support of your spouse, should you have one. In addition, it helps if you paint a picture of the time

you will free up and focus on the positive outcomes of your change of lifestyle. I've only told a few people that I'm learning day trading, because I believe many won't understand what it actually is about and think that I'm wasting my time and will lose money. I know I'm only imagining this, but I want to ensure I have a positive, supportive mental environment while I'm learning.

### **Lesson 8: There is only this moment.**

If a trade has gone quite badly against you, your next trade should not be linked to that loss. Often when learning to trade, if I had a bad loss, then I would immediately try to recoup the embarrassing loss by trading 10,000 shares in a low float stock. For each 10 cents per share of profit, I would net \$1,000. Sometimes I would succeed (dumb luck) and then feel better about myself (less embarrassed), but most of the time, because I didn't wait for the proper setup, I would destroy my account even faster. Each trade needs to be a fresh first trade. You are not your trade. If a trade goes against you, do not feel bad about yourself and try to remove that feeling. Sometimes, if I have been down and looked at how much I was down on my Closed Positions P&L, I would then stay in a trade longer than I should because I wanted to recoup the amount I was down. The trade then turned against me and I lost even more. Hiding the Closed Positions P&L allows me to concentrate on making a good trade, which will give me the best profit or loss for that trade, not for previous unrelated trades.

### **Lesson 9: When you have reached your profit target or stop seeing setups, stop trading.**

There is a tendency to try to squeeze every dollar out of the trading day. You justify continuing so you don't miss

any profit or to try to keep learning more. After the opening, when the volume decreases, there are a lot of ways you can lose what you have gained. By trading after the open, you learn not to trade after the open. The setups after the open are not the same as during the open. They can be traded, but beginner traders need to beware.

Other emotions:

- It's exciting for Canadians to realize that the profit is in USD. At least while the Loonie [Canadian dollar] is low.
- Starting to fantasize about how to tell your work that you are retiring.

If you are practicing day trading and working at the same time, it's exciting to realize that one day, when you are ready, you will be sitting your boss down and letting them know you are retiring, planning an exit strategy and eventually closing one chapter of your life and opening another. This visualization helps to support all of the hard work you have to do in order to learn the art of day trading. There is a light at the end of the tunnel."

In our modern world, where a favorite mantra is that "*you can do whatever you set your mind to*", it isn't easy to hear that not everyone can be "The Greatest," that not everyone can be a Muhammad Ali; similarly, not everyone who enters the profession of day trading will be successful at it. To those who are thinking of trying day trading, I suggest taking an in-depth and lengthy introspective look at your abilities to succeed at such a challenging goal.

You should ask yourself if there is anything in your past that would suggest you have the mental aptitude to overcome the harsh and unforgiving nature of the markets. You should consider

whether you will be able to overcome all of the emotional pitfalls inherent in trading on the stock markets. After all, there is no better predictor of your future behavior than your past behavior. This type of self-reflection is difficult for many, but it is a critical first step before plunging headfirst into the deep and mercurial world known as day trading.

Michael, the earlier referenced member of our chatroom who also serves as a firefighter, ended his submission for this book with the following wise advice:

**“Review your trades—**After a day of trading, look back and review what you saw. Your entry point, your stop loss, and your profit taker. Why were they set where they were? Did it play out like you thought it would? If not, why? Did you barely get stopped out, or were you thankful you had a tight stop in place? Did you exit the trade too early, or wait for a reason to get out?”

There are many ways to review your trades. One method I recommend is that once you are finished your trading for the day, and while everything is still fresh in your mind, you take a piece of paper or open up a document on your computer and create a chart with three columns in it. The first column will be for a description of each of the losing trades you made (and I sincerely hope there's not too many each day!); the second column will be for you to note what you can learn from each losing trade; and the third column will be for you to note how you can improve your trading the next day based on what you have learned and experienced this day. And what might that be? It could, for example, be an insight into the market. Perhaps it was a range-bound market but you assumed the market was trending. Recognizing that error might very well help you to frame subsequent trades. Alternatively, you might learn something about yourself from a losing trade. Perhaps you will gain insight into how to manage risk more effectively. Please trust me. You can learn quite a lot from a daily review of your unsuccessful trades. Your losing

trades will never be a total loss as long as you embrace them and learn from them. And it can all start by taking a piece of paper and a pen and drawing a basic chart with three columns.

Another method of reviewing your trades that I very strongly recommend is to journal them. The purpose of journaling is to not only create a library of all of your past trades, entries and exits. Journaling is also an effective method to balance your psychology of trading. Your journal is an expressive way to cope with the challenges you encounter in trading and, over time, to improve both your trading and your psychology of trading. When you experience feelings of sadness and stress over your losses, merely telling yourself that you'll be okay doesn't really do all of that much at all, but if you journal the incident, it will have an effect on your mind and it may lead you to not repeat again whatever error you made that resulted in a loss.

You may find it hard to believe, but expressive writing is a very powerful psychoanalytical tool. Earlier I mentioned the work of Dr. James W. Pennebaker, a professor in the Department of Psychology at the University of Texas at Austin and author of several books, including *Opening Up* and *Writing to Heal*. Pennebaker is a pioneer in the study of using expressive writing as a route to healing. He has found that writing in a journal or talking aloud for a half hour each day has a powerful effect on enabling people to cope with challenging emotional circumstances. His research has shown that short-term focused writing can have a beneficial effect on everyone, from those facing a terminal illness, to victims of violent crime, to even teenagers struggling with the transition from high school to university.

For many years, part of Pennebaker's mission, if I may call it that, has been to give people an assignment: write down your deepest feelings about an emotional upheaval in your life for 15 or 20 minutes a day for four consecutive days. Many of those who have followed this relatively simple instruction have found

their immune systems strengthened. Others have seen their grades improved. At times, entire lives have been changed. Pennebaker advises, “When people are given the opportunity to write about emotional upheavals, they often experience improved health. They go to the doctor less. They have changes in immune function. If they are first-year college students, their grades tend to go up. People will tell us months afterward that it’s been a very beneficial experience for them.”

For myself, I believe that talking out loud for five to ten minutes each day about my emotional ups and downs has helped me to become a better trader and master my trading psychology. I know for a fact that most of the successful traders in our community are those who keep an excellent journal. Some post it in the forum we have on our website, some post it to their own channel, and some record a video and send it to me for posting on our community channel. Others of course never publicly publish their journal. It does not matter at all if your recap is public or private. What is very important though is to actually do a recap. And to do that recap every single trading day. According to Pennebaker, the actual process of *doing* a review of your day, every day, is much more important than the end product that is created (the handwritten or typed journal, the video recap, etc.). It’s all about the process.”

You need to be growing in your confidence through the process of self-reflecting on your day and your trading performance. Do not limit your journal to only a recount of all of the things that you did wrong. Do not make your journal strictly a library of self-criticism. There is no benefit whatsoever to having a daily time devoted only to negative self-reflection. No professional coach offers only criticism to the athletes under their charge. Over time, purely negative self-reflection will lead to a sense of incompetence and failure. Always remember that two of the purposes of self-reflection are to lead you to success and to build your confidence. It is very important for traders,

both those who are starting out and those who are veterans, to take time each day to focus in on their strengths and on their successes, and not just on their mistakes and failures.

In his book, *The Daily Trading Coach*, Dr. Brett Steenbarger made the following observations about self-confidence in trading:

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“Many traders confuse self-confidence and positive thinking. Self-confidence is not expecting the best; it’s knowing, deep inside, that you can handle the worst. The self-confident trader can look a stop-loss level in the eye and know that he will be okay if it is triggered. The self-confident trader knows that loss is part of the game—and that some of our best market information comes from good trade ideas that don’t work out.”

Here is your assignment: create a YouTube account and do a recap at the end of your next trading day, whether that is at 4:00 p.m. ET when the market closes, or whenever it is that you finish your trading because you either hit your maximum loss or you hit your profit target. In the recap, talk about what you did right and what you did wrong. If you let a trade run against you, and you did not respect your stop loss, mention it. If you stopped out of a trade properly, be proud and include that. If you took a larger size than you should have, mention it, but do not beat yourself up about it.

You may still be wondering, though, what the point is of making a recap. I want to emphasize again the research on expressive writing that has been conducted by Dr. James W.

Pennebaker: words heal. Words do heal, and that is the actual name of one of his books, *Expressive Writing: Words that Heal*. Expressive writing can improve health, build confidence and hardwire good habits into your brain.

## CHAPTER 7

# SETTING GOALS

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## **DEFINING GOALS**

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Goals are one of the little ingredients that bring happiness to us. An article published in the *Journal of Personality and Social Psychology* showed that personal goals that are congruent with our interests increase our emotional well-being. In other words, your goals make you happy. As traders, we all have something we are striving for. Initially it often is to be break-even at the end of the month, and then later, with more experience, it very likely is to be able to support ourselves and our loved ones with our trading earnings. The important thing to know is that setting goals and making progress on them can leave you happier and much more satisfied with life.

Matt G has been weightlifting for more than 20 years and now, as a trader, he attributes the practice of setting goals that he developed in the weight room to be a key factor to his success in trading:



“One thing I’ve been thinking about a lot lately is goals, focus, and persistence. I relate it a lot to something I have way more experience with, lifting weights.

I've been lifting weights in some way since I was around 13 years old (I'm now 36) but it wasn't until I was 24 that I actually made real progress. The reason for this progress was I set goals, I focused on these goals daily, I also focused on learning what it would take to meet those goals, and my persistence in focusing, and adjusting my strategy to meet these goals, paid off.

I've treated my trading 'career' (in quotes because I'm just getting started) the same way.

When I decided to start, I figured out my goals. I've always felt goals need to be concrete, with specific targets. 'Be profitable' isn't a goal. My goals started as, 'Trade in the simulator for minimum of 3 months' and 'Read 3 or more books on day trading by start of the year.' By December, I was setting actual trading goals such as, 'Have 60% winners for the entire month of December.' 'Manage risk over the course of December so that profit to loss margin is greater than 2:1' was another goal. I set these for what was my last month in the simulator before I'd venture into real money. If I did not meet these goals, I would re-assess and set new goals for January and start in the simulator again.

I focused on these goals daily and would keep notes on how I did that day. I tried to reach both of these daily if possible, and would check where I was on a weekly basis as well.

I focused on what I needed to learn and change to reach these goals. I studied new strategies and re-assessed my own. I took the rules I learned from the previous months of simulator trading and applied them to my trading to help reach my goals (such as waiting five minutes before starting trading, not averaging down on trades, and calling in the trade/pattern I see).

I was persistent in tracking every day, and making notes on my trades: making notes on things to focus on the next day to make sure I did not make the same mistakes.

Because of this, I ended December with 72% winners for the entire month, and a profit to loss ratio of 4.2:1.”

To improve in trading, you need to define a goal for the day. And I do not mean a monetary goal, but a psychological and emotional one. What are you going to work on this trading day? Building upon a strength? Correcting a weakness? Repeating something you did well yesterday? Avoiding one of yesterday's mistakes?

Many traders try to set goals only when they're trading poorly or losing money. However, goal setting, learning and improving one's trading skills are an ongoing part of this career. Goal setting is not about making money, it is about creating and developing skills, competence, and confidence.

You have to be careful though. If you do not meet your goals, you are more likely to experience negative emotions such as anger, frustration, and disappointment. That is why setting realistic goals is so very important. No matter how long it takes you to get through the learning curve, it is vital for you to assess how far you have come, and not how far you still have to go. Viewing your timeline for your goals in this manner will help you to stay positive through the difficult process of learning to trade.

One of our members, “Bibonow”, made a series of posts to our forum about the beginning stages of his journey as a trader. I wanted to share in this book a few excerpts from his posts. His enthusiasm is unavoidably contagious! The emotions he experiences are both painful and real. One of the first tasks he undertook was to develop a four-phase plan:

“

**“Phase I:** Find an evening shift job so I can trade the Open, 9h30 to 11h30

**Phase II:** Trade in a simulator for at least 2 or 3 months and save as much money as I want for future trading capital

**Phase III:** When ready, deposit \$ and start trading with small share size to get emotions down and stress and you know

**Phase IV:** Is when I will be consistently profitable and leave my job to travel”

“Bibonow” continues:

“

“Took me 6 days to complete Phase I. March 12th was my first day at my new job as a Forklift Driver on an EVENING SHIFT and I started the simulator on March 19th. I only missed ONE morning of trading since [this was posted on June 16th].

Long story short, on March 19th, I started my journey as a day trader on the simulator and went for 1 month in chatroom to get used to it all and the last 2 months by myself to have a harder time and learn more.

As everyone here who started to day trade in a simulator knows, emotions are always there. At first I felt REALLY

lost and found myself looking at a screen full of what the hell is that and this and where do I start.

You do one trade and win, I'm the best, I'll make a living tomorrow out of it. The next trade you lose and feel like a complete failure...

The first month served as getting used to the platform and terminology and, you know, doing sh\*tty trades, experiencing how to calculate share sizes, stop loss, entry, exit, scaling out, hotkeys, maneuver with charts, etc.

2nd month, I started journaling trades: date, time, ticker, screenshot, pattern, trend, long/short, share size, price entry, technical entry, risk, reward, R:R ratio [risk:reward ratio], win/loss, profit, things to correct.

3rd month is now over and I learned a lot.”

For continuing his trading in the simulator, “Bibonow’s” plan is:



“

- “Journal EVERY SINGLE TRADE I MAKE with the only exception of hotkey mistakes
- Make a weekly recap video of my week. What was my win\$/loss\$ ratio, win rate %, lessons learned, minimum share float stocks need to have, price range \$, etc.?
- I will create a plan this weekend with risk % per trade, maximum daily loss, the patterns I will trade, etc., and that I will post here

- I will probably stream on Twitch every morning, probably in French, I think with people watching I will be kinda forced to follow the rules I made
- I would also really like to make friends with some of you and discuss day trading together and share our path”

“Bibonow” then posted on the forum his rules for the next 3 months, based on capital of \$10,000:



“

### **“Risk Management**

- Maximum Risk per Trade: 0.4% (\$40)
- Maximum Daily Loss: 1% (\$100)
- Daily Maximum Gain: 2% (\$200)
- Stop Loss no further than 20 cents from entry point
- Never take more than 200 shares

### **Stocks to Trade**

- Nasdaq stocks only
- From Bear Bull Traders’ watchlist
- Float: 25 million shares +
- Price: \$10 to \$99
- Spread: maximum \$0.02

## Rules

- Maximum 5 trades per day
- Always take at least 50% @ profit target
- Take no trades before 9h35
- Take no trades after 11h30
- Cell phone closed from 9h00 to 12h00
- Journal ALL trades except hotkey mistakes

## Goals

- Win\$/Loss\$ ratio over 2 to 1
- Winning more than 50% of my trades”

Nas posted in our forum:



“

I now truly believe that 80% of success in our profession is psychology (if not more). The way we approach the markets and our belief system is key to this. Here are some points I am trying to instill.

I start each day by going into the ‘Zone.’

1. Markets are totally random and not out to ‘get’ you, nor are individual stocks—we are too insignificant to impact them.
2. You are NOT as good or bad as your last trade.  
While psychology plays a role in how you act in the

next trade (revenge, overconfidence, etc.), the last trade has NO bearing on the next one as, again, the markets are totally random.

3. Hindsight is 20:20—we often can see things that were simple and easy in the past but totally miss them in the heat of the moment, this is because our emotions are elevated in the heat of the trade.
4. Discomfort is part of the game and there is no way to avoid it. We are built with survival fight or flight instincts. The hormone-based feelings are meant to cause discomfort and hence save our skins. As long as we realize this, we can learn to control our emotions based on rules and strategy.
5. Many people compare trading to sport. I am not athletic, so I compare it to losing weight. I personally will need to go into a conditioning period where I will fall off the wagon several times and cheat; however, there comes a time when your mind clicks and you just get into it. You follow your rules and you measure your intake and results and plan for the future. I do the same with trading.

Here are my beliefs based on the above points:

1. You cannot predict; just react to the market. Trade what you see and not what you think you will see.
2. Build an edge on strategies that put odds in your favor and, once you do that,
3. Religiously implement Trade Management Rules... respect your stops (Technical, \$ Value, etc.). There is no way we can profit the 100% off any move, but

we can use targets based on levels and use scaling to have a good win:loss ratio.

4. Losses are a cost of doing business.
5. Discomfort is part of the game. Get used to it.
6. Just like S/R [support and resistance] are not hard lines but areas, profits are also areas and not days. Base them on weeks rather than days...
7. Now, the biggest one—DO NOT OVERCOMPLICATE DAY TRADING—it is not.

Would love to hear other's thoughts here... Thanks for looking!"

Aiman responded as follows:



“

“Thank you for your post, it's a good reminder for a trader about what day trading is. I read Mark Douglas's book ['Trading in the Zone'], it's motivating. Personally, I now believe that no matter how much I lose, it's ok, as much as I'm following the rules.

To be honest, sometimes I cheat (averaging, waiting for a trade to come back), and I do win the trade, but the strange thing is, I don't feel the joy out of it. Yes, I won that trade, but I traded it badly, I broke my rules! What's worse is when the trade goes bad, and the losses increase and increase, there you lose money + break your rules, it's more emotional than just losing money.

When one follows rules, it's less frustrating when the trade goes against you, at least you know you did everything right, you had a plan, you followed your plan, this trade didn't fulfill your expectations, the next one will:) Thank you for your thread."

Nas agreed in a subsequent post:

“

"True, 100%—in fact, that one good trade is not necessarily one where you make money. Even if you lost money, but you followed proper entry and trade management, I consider it a success. I actually tag those trades in my journal account as TradeBook trades, and then run separate stats as if those were the only ones I took and, guess what, that is where I get the best % performance and ratios."

Nas finished off this thread with the following, what he called:

“

"My Mantra for today...

I am a Professional, Confident Trader, in this for the long haul as a career.

- I will not chase stocks and I will wait for the right setup.
- I will size accordingly with trade qualification.
- I will scale properly.
- I do NOT need to continue to trade in several trades or over the whole opening hours to show that I am a professional trader.
- It is small profits that will make it big in the end, not slam dunks.
- Look at the big picture.
- My focus right now is consistency and staying green for the week, even if it is \$10.
- I am on a path and getting better (I can see it)—I am only 3.5 months into my journey and will need 2 years to be the best I can be.”

What is the #1 goal to have? I believe your #1 goal as a trader is to be constantly improving. If you manage your trades better today than yesterday, that means you are improving and becoming a better trader. Focus on improvement and self-development. Do not define absolute goals that are out of your control. For example, Matt had some solid definitive goals that he had complete control over. “Trade in the simulator for minimum of 3 months” and “Read 3 or more books on day trading by start of the year” are excellent goals. In my opinion though, setting a trading goal such as “Have 60% winners for the entire month of December” is a difficult one because there are too many variables that you as a trader will have no control over. In contrast, the final goal that Matt mentioned, to ensure his trades for December average out to a risk to reward ratio greater than 2:1, is a realistic and excellent goal to have.



## CHAPTER 8

# A DISCIPLINED LIFESTYLE

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*“You cannot be more disciplined in your trading as you are in your life.”*

Dr. Brett Steenbarger, Psychologist,  
Author, Trader, Coach

To be a successful and competitive athlete, you need to master what Nike calls the 5 facets of training: **Movement, Mindfulness, Recovery, Nutrition and Sleep.** We strongly believe that to be successful in any career or endeavor, you need to practice these same 5 facets, albeit with a little bit of tweaking specific to the situation. There is nothing in the world more comparable to trading than competitive professional athleticism. Both are considered high-performing fields, and success will only come to those who are the best and most focused, and not to those who merely scrape by, performing at subpar levels. Borrowing on the concept introduced by Nike, we believe success in trading comes from mastering these 5 facets: technical knowledge, journaling, mindfulness, nutrition and sleep.

At Bear Bull Traders and Peak Capital Trading, we try our best to touch upon and guide the two communities in all of these areas, as they all contribute to your success. If you do not believe, for example, in the role of nutrition or proper sleep when it comes to your trading, try to trade when highly caffeinated, when under the influence of a substance, or when lacking sleep, and you'll see the results for yourself (we strongly recommend trading in a simulator for this test!). There is considerable

evidence and scientific research studies documenting the effects of food, sleep and stimulants on a person's cognitive ability and fast decision-making.

Accordingly, we decided to devote this chapter to exercise, diet, and sleep; their effects on your trading; and how you can go about improving in them. Our training and trader development programs always include webinars focused on these aspects of trading, as well as of course the technical and methodological aspects of trading. Both Mike and I are active in our lifestyles and try to watch our diets and sleep well, even though both of us do live on the West Coast and must wake up early in order to be prepared for the opening bell.

## **RELATIONSHIP BETWEEN LIFESTYLE AND TRADING**

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The importance of a healthy lifestyle has always been part of our focus. In the summer of 2020, I received an email from a trader originally from Uruguay:



“

“Dear Andrew,

I am an immigrant that came here with nothing from South America. Studied, worked hard, built a successful business (car dealership and some small real estate development here in Boston). About a year ago I kind of hit an emotional plateau. Needed a change, don't want to commute anymore, don't want to work anymore, got very depressed, wanted to lose weight and failed miserably

every time. Basically, I was looking for an alternative, a change, a reason to change, but couldn't find anything that motivated me. (I'm 45, almost 200 pounds.) Long story short, read your book and basically changed my life. It gave me a different perspective, a challenge, a reason to start all over again, fresh, etc. I stopped drinking alcohol as you suggest in your book, and started exercising on a daily basis. (Wasn't an alcoholic, but drinking regularly with friends, etc., and I believe that was keeping me from losing weight.)

4 months later, lost 35 pounds, joined Bear Bull Traders as a lifetime member, enjoying the chat and classes and learning a lot. Don't know if I am happier because I am learning to trade or because I lost weight! (Of course, both!)

Just wanted to thank you for all the work that you and all the staff of Bear Bull Traders do and for helping me indirectly to lose weight!! (You gave me the reason that I needed, it was a mental barrier, and you removed it!)

P.S.: Hopefully one day I can be 1/4 profitable as you are and hopefully keep my weight off! Wish you many years of health and wealth for you and your family.

I am attaching a picture of the before and after reading your book [Figure 8.1 below]!

Thanks!"



**Figure 8.1: Our Bear Bull Trader Federico, originally from Uruguay, before and after reading *How to Day Trade for a Living*. The motivation to become a better person and better trader led him to change his lifestyle.**

As emphasized many times in this book, you must be aware before beginning your trading journey that trading is a high-performing field. We understand that after a setback or two, some people may no longer want to pursue a career in trading. What we have found though is that what someone learns about themselves in the process, and how that learning can affect them, can be more valuable than the actual trading profits are. Self-discipline, resilience, mental fitness and being process-oriented (among many other characteristics) are necessary traits in order to be a successful trader. We know from experience and from what people have shared with us over the years that developing all of these characteristics as you learn how to trade will trickle down into all of the other aspects of your life, even if in the end you don't succeed as a trader or you decide to move on to another profession that is better suited for you.

In the summer of 2020, another trader emailed me and advised that his journey of learning how to trade has made him a better and healthier person, even though he is still in a simulator and has not started live trading yet. He is more disciplined, sleeps better, does not drink as often, and is not wasting as much of his time watching TV shows as he used to.

Let's also read his email:

“

“Andrew,

I'm glad I took your hint during the 2 week trial period and joined Bear Bull Traders! The way I see it, even if I don't end up being a day trader, that money will be worth it in so many ways.

I'm much older than you—I'll turn 52 this year. Here are some ways in which I have already benefited from joining Bear Bull Traders & taking your advice. After reading your book, the one thing that really struck me was about discipline. You said that if you want to see how disciplined you are, give up a 'bad' habit and see if you can do it. I decided to take that challenge and here are the results from the past 1 month:

I used to sleep late and get up late, never slept before 11pm and never got up before 7am, after the COVID-19, would get up at 8am.

Now I go to bed by 10-10:30, get up at 5:30am, on all weekdays without fail. The last time I used to get up at 5:30am was when I was in my 12th grade in India studying for my exams.

I like my single malt, earlier it used to be only on weekends, then slowly since the WFH [working from home] I was drinking almost daily, despite a lot of howling from my spouse!

Now I do not drink anymore on the weekdays & restrict it only on weekends but that too trying to cut down. I won't give it up—I enjoy it too much!

I would waste my time watching movies, sometimes even during the day.

No more movies or TV, if I have spare time I watch Bear Bull Traders videos or try to learn other stuff.

So just wanted to let you know to keep doing what you're doing. People are getting impacted—in good ways—even if they do not finally become full time day traders. Take care & stay safe!"

Trading is not something that happens in isolation from the other aspects of a trader's life. Just as an elite athlete needs to plan every facet of their personal life to ensure that everything is contributing to their effectiveness in competition, a trader who strives to be successful should ensure that their general lifestyle enhances (and definitely does not impair) their ability to trade successfully. Adequate physical exercise, proper diet and nutrition, and quality sleep, all part of a disciplined lifestyle, have been shown to improve cognitive performance and overall well-being.

José, who is originally from Peru but is now a professor in the United States, entitled his submission for this book, "The Big Picture":



“

“The most emotionally draining incidents that I have ever experienced involve trading stocks. I have been trading for over a year. Although it feels good to make money from trading, it does not compare to the emotional drain I experience when I lose money.

During my short year with swing trading, and now day trading, I feel like I have made every possible mistake there can be, which has led me to contemplate quitting stocks over and over. Retrospectively, one year is very short compared to overall experience in a profession, therefore, I am likely to continue making mistakes. The key is learning from these mistakes and reflecting on the big picture. As a professor, one lesson I teach my students is that we learn much more from our mistakes. Of course, it is better to learn from others' mistakes, or make these mistakes in a simulated environment. This is the exact reason why I agree that any new trader should be using a simulated trading platform like the one Andrew recommends. I will emphasize why learning from mistakes and continuously considering the big picture has led me to avoid being emotionally hurt in stock trading.

A large part of the reason why mistakes are so damaging to me is linked to my upbringing. My parents moved to the United States from Peru when I was 10 years old. We struggled financially in this new setting, which I noticed as a young boy in spite of my younger brother, sister and I having a happy childhood, and my parents' attempt to

keep that from us. Therefore, I avoided asking for anything expensive and always looked for opportunities to work and help the family financially. My background has made me a fairly frugal person, and any kind of financial loss, which can be part of the day-to-day occurrences in stock trading, absolutely tears me apart.

On the bright side, my childhood instilled a sense of determination and work ethic within me. It has allowed me to become a professional and help my family financially.

How is this related to stock trading? Throughout my life, I saw hardships as areas to overcome, mistakes as learning opportunities, and to calm overreactions by considering the big picture.

Traders can use this thought process with stocks. Reflecting on the questions is important. What is the reason for this struggle? How is this going to help me? How am I learning from this experience? How would my life be different if we had stayed in Peru? I believe that I would not have obtained a doctorate in pharmacy, worked as a professor at a University, and/or be paid to speak at medical conferences if it was not for self-reflection. Ruminating on the big picture throughout my life has helped to decrease my emotional exhaustion during the times of struggle.”

Mahmoud wrote:

“

“I have realized that in trading, everything in my life is an influential vector that can impact my state of mind and subsequently influence my trading style. My trading performance has been impacted from waking up late and still deciding to trade to having a bad day due to a nonrelated argument (usually at work or in my relationship).

I have been working out nearly every day since November 2017 in order to be in the right state of mind. It is obvious this has affected me. I lost nearly 30 pounds and many people tell me I look transformed. Even though I am more wishful for a positive inner transformation in trading than for something on the outside, I am thankful, and I think it is a sign that I am transcending something. I have been open to activities such as Flow yoga, once a week, to create that inner peace, to learn meditation techniques and to follow a lean diet. I know I need all that to always maintain a high level of awareness during my trades. I see the changes it is creating in me but my trading record does not show enough data yet to have a fully conclusive validation of any kind of process change.”

As I wrote earlier, being disciplined, more than anything else, will impact and improve your trading results. You need to stick to your trading plan with a military-style discipline. I have found that the discipline required in my trading career has had a snowball effect of positive habits in my life in general, and these habits have contributed to even more success in my trading.

Peter wrote:

“

“It's become quite apparent to me that developing and maintaining good trading habits are the key to maintaining a consistently profitable trading practice. These habits are being early to analyze the market, preparing and calculating before each trade (i.e., entry, size, exit), taking a trade when I observe a trading opportunity, actually placing my position size, stop loss (risk) and target price orders, and analyzing price action during a trade to inform decisions.”

Frank posted a comment to our forum one day asking what traders' regular routines and work ethics are:

“

“I was wondering what are the different work ethics that you guys use to get better at trading? By that I mean, sleep pattern, coffee/drug/alcohol consumption, reading books and how you take notes, and how you remind yourself of your weaknesses during trading? Maybe we can learn from one another.

I try my best to sleep at least 8 hours and I never take any medicine/drugs or alcohol unless it's Friday or Saturday.

I wake up 2 hours and 30 minutes before market open so

I'm fully awake by 9:30. During this period, I eat and I do a couple of push-ups and squats to wake me up.

I go over my plan and what I want to work on (ex: tightening my stop losses).

I start trading. Every time I finish a trade, I stand up and move around a bit to calm myself and assess my emotions (I want to be fully stoic while trading).

When I'm done trading, I do my own recap quickly and take a break.

Later in the day, I go over my recap and I look for what I did great and what I need to work on next time.

I have a spreadsheet with things I have to work on and five squares next to each of them. Every time I see a weakness, I write it down, and every day that I did not do this mistake, I check one square. If I make the same mistake, I erase all of the check marks. When all of the squares are filled, I erase that line.

I put a Post-it Note on my screen with the mistakes written down that I have the most trouble with.

I have to read at least one hour a day when I start a new book. When I finish the book, I write all of my notes into a one page Word document and print it. I go over these notes at least once a week.

I wait before starting a new book because I know that I will forget what most of the earlier book was about if I don't let the information sink in. It's important to remember what you studied and not just fill your head with information that is not helpful. So, for a few weeks, I just go over the notes so I remember all of the important information and forget what is useless. Then I start a new book that talks about one of the things I need to work on.

Keep in mind, I don't consider myself a successful trader yet, but I would say that my work ethics have been what made me successful in most of my endeavor this far. I hope this can help some people that are willing to put in the effort but have not learned proper work ethics, and I'm sure that I will learn a lot from all of your routines."

## A WINNING MINDSET

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After watching a YouTube video entitled, "*The 20 Habits of Wealthy Traders*," Abiel posted to our forum a list of these habits, taken from the video uploaded by WinnersChoice Trading Skill. Here's Abiel's post:

“

"Just watched this video.... '20 Habits of Highly Successful Traders'... but the guy really talks about 31 habits [if you're searching for this video on YouTube, it seems to have two names, the alternate title for it is, 'The 20 Habits of Wealthy Traders']:

1. Wealthy traders are patient with winning trades and are enormously impatient with losing trades.
2. They realize that making money is more important than being right.
3. They look at charts as a picture of where traders are lining up to buy or sell.
4. Before they enter any trade, they know exactly where they will exit for either a gain or a loss.

5. They approach trade number 5 with the same mindset they did on the 4 previous losing trades.
6. They use ‘naked’ charts and focus on zones.
7. They realized a long time ago that being uncomfortable trading is OK.
8. The markets are their workplace. They are a participant, not an onlooker.
9. They stopped trying to pick tops and bottoms.
10. They stopped thinking about the market being ‘cheap’ or ‘expensive.’
11. They are willing to change sides if the market tells them to do so.
12. They trade aggressively when trading well and modestly when they are not.
13. They realize the market will be open again tomorrow.
14. They never add to a losing trade... EVER.
15. Cash is the goal, but never the measure of success.
16. They read about mobs and riots.
17. They provide liquidity to the markets while watching price and volume.
18. They have a way to gauge fear, greed and speed of the markets: tick charts 233, 612.
19. They practice reading the right side of the chart, not the left.
20. Every wealthy trader has an ‘edge’ they can explain to their mother.

21. Their position size is calculated exactly on risk tolerance.
22. Profit targets are based on average range or something objective.
23. One or two trades a month make their month.
24. They are confident decision-makers in the face of incomplete information.
25. A losing trade does not mean they are a loser.
26. They buy higher highs and sell lower lows.
27. Their business isn't trading, it's finding the right trades.
28. They write down or record every trade, price, thought and piece of news, as well as their attitude throughout the trading day.
29. Their conviction on an active trade remains unless something major changes.
30. A winning trade does not result in taking on extra risk in the next trade.
31. They trade the reaction, not the news."

After watching the same YouTube video that Abiel shared about in the previous post, as well as another video entitled, *Active Trading Masters Program, Video 20, The Winning Mindset*, "Mads from Denmark" posted to our forum a detailed list of thoughts he took away from these two videos. Rather than repeat the comments Abiel shared above, I will only include below Mads' comments regarding "The Winning Mindset" video, which was uploaded to YouTube by Pete Renzulli.

*"I just spent some time writing down what I took away from these two videos, so I can use it in trading, and not just forget it..!"*

## Motivation

- Every action we take has a reason why we do it; most of these reasons are spur of the moment.
- High achievers take action on purpose.
- Successful traders who have a long career take purposeful action; they make good decisions on purpose.
- Struggling traders have weak focus on their motivation, their reason why is not strong enough or not linked strongly enough to a burning desire.
- Too often ‘I want this trade to make money’ is stronger than ‘I want to have a long career.’
- If we are focused on our reason why, holding a big losing trade would never be an issue.
- What is the reason why you want to be a successful trader?

## How to Motivate Yourself on Purpose

- There are two types of motivation which result in proper action: away from pain or a problem or towards pleasure or a goal.
- They both work, but away from pain is always stronger, it is immediate.
- Think tooth whitening versus toothache. Which one will get you to act faster?
- What pain do you want to avoid or eliminate that will motivate you to be a disciplined trader? What image can you link to pain that will inspire you to trade with discipline?
- What exciting goal will motivate you to be a disciplined trader? What future experience can you link with trading discipline that will result in achieving your goal?

### Mentor Advice: The Trader's Path

- An absolute belief in probabilities and the discipline to flawlessly execute that edge.
- The more time you spend at the beginning of your career developing conviction in your edge, the sooner you will be on the path to success.
- The more time you spend at the beginning of your career focusing on the money, the longer it will take you to understand successful trading.

### The Winning Mindset

- To have the winning mindset, you must be willing to be successful!
- To be a winner, you must learn what works and then have the discipline to apply it consistently. Knowing what to do and doing it is not the same thing, winners and profitable traders take planned purposeful action.
- In order to be a winner, you must always take responsibility for the outcome of every trade.
- You must be willing to make a commitment to think in terms of results, not feelings of progress.
- To produce results, you must learn from every single trade!

### The Profitable Trader's Thought Process

- ‘How I spend my spare time will dictate how I spend my future.’
- ‘I don’t need to know what’s going to happen next to make money consistently.’
- ‘It is much more important to know what I am going to do next, than it is to predict what is going to happen next.’

## Trading to Win: Control

- When you are trading to win, you will never feel the market ‘must’ do something.
- If you are asking the market to do you a favor, get out of the trade, you are now hoping, and no longer have any control over the outcome of the trade.
- Having the discipline to book a profit or loss without emotion is what separates the average trader from the one who takes home a check with consistency.
- When you are trading to win, you will move from one trade to the next effortlessly.

## The Effortless Mindset

- Every trade should have the same mental sequence:
  - A: Identify what is probably going to happen.
  - B: Have a scenario in place for if the trade moves in your favor or against you.
  - C: Place the trade.
  - D: Let the trade unfold.
  - E: Do what you said you would.
  - F: Start at letter A again.

## Focused Thoughts & Mental Tricks

- If you are ever in a trade that you are not confident about, ask yourself this question: If I did not have the position, would I want it? The best answer will always be the first one that comes to mind.
- Don’t trade out of the mistake, get out of it!
- Being right and trading to make money is not the same thought process.

- Eliminate thoughts of right or wrong based on profit or loss of the trade.
- Ask yourself this question after every trade: ‘Would I take that trade again?’ If the answer comes back as ‘yes,’ you are focusing on the process and the structure of the trade. You are on the track to success.”

## SLEEP

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Dr. Matthew Walker is a professor of neuroscience and psychology at the University of California, Berkeley, and his book, *Why We Sleep, Unlocking The Power Of Sleep And Dreams*, explains the importance of having 7 to 9 hours of sleep each night. The founder and director of Berkeley’s Center for Human Sleep Science, Walker regards sleep deprivation as a major public health challenge. In one of his interviews with Ryan Flaherty, senior director of performance at Nike, he explains the importance of sleep and how important it is, even though it is mostly ignored in our modern life.

On a related topic, although Dr. Walker is referring in the following quotation to the physiological implications of inadequate sleep for athletes, people who trade for a living can see parallels with their kind of work and the effect of sleep deprivation on psychological functioning:



“

“... if you look at athletes who are sleeping just, let's say 5 to 6 hours a night, firstly we know that the time to physical exhaustion will decrease by about 10% to 30%. For example, let's say you have a runner who's training for a

10 km [around 6 miles] run. If they've had 5 to 6 hours sleep in a night before they run, they're going to get physically exhausted by 7 km [around 4 miles] rather than the 10 km that they've actually trained for."

Dr. Walker sees sleep as a frequently overlooked contributor to people's success, describing it as "*the neglected step-sister in the conversation of performance today.*"

People in all walks of life experience difficulties sleeping, and many turn to remedies that are more counterproductive than useful. One of the most common is alcohol, based on the assumption that a drink or two before bed will result in a better night's sleep.

Dr. Walker disagrees and explains why:

“

“... firstly alcohol is a class of drugs that we call the sedatives, and sedation is not sleep, but many people will mistake the former for the latter when they have that nightcap in the evening. They think it helps them fall asleep. What's it's simply doing is knocking out your cortex. It's just sedating your brain, and it does not produce naturalistic sleep. So that deep sleep, of non-REM sleep, that's the stage of sleep that you will actually miss out on with alcohol firstly, because you're in a shallower state of sleep.

Second problem with alcohol is that it actually fragments your sleep so you will actually end up waking up many

more times throughout the night. Now, often you don't remember waking up; however, in the morning and during the day you'll feel unrestored and unrefreshed by your sleep and you don't put two and two together because you don't remember waking up, and that's one of the other problems with alcohol's impact on sleep.

I think the last component of alcohol is that it's a very powerful blocker of your REM sleep, of your dream sleep, which is happening in those last couple of hours of the night and we know that REM sleep is critical for a collection of functions, functions such as regulating your core body temperature. There's some interesting work that REM sleep may actually improve motor skill memories, so that if you are drinking that alcohol, not getting that REM sleep, you're going to be short-changing the brain of some critical motor skill learning that should have been happening during sleep, which would prevent those types of benefits emerging on the training field the next day."

Traders who have tried an occasional nightcap to celebrate successes or to ease the pain of setbacks will probably relate to these comments.

The idea that caffeine is a contributor to sleep deprivation would probably surprise very few people. Students, long-haul truckers, and others who don't want to doze off have traditionally believed that consuming multiple cups of coffee will help them stay awake. What might come as a surprise to many people is just how long caffeine is able to exercise its slumber-preventing powers. According to Dr. Walker, caffeine is in a class of drugs known as psychoactive stimulants, and he describes how it interferes with sleepiness in this way:



“

“... from the moment that both you and I, and everyone listening, woke up this morning, a chemical has been building up in our brain, and that chemical is called adenosine and it's the ‘sleepiness’ chemical and the longer that you're awake, the more of that sleepiness chemical, the more of that adenosine builds up in your brain. After about 16 hours of being awake, you should feel plenty sleepy ...

The way caffeine works is that it will race into your system up into the brain and it will hijack those receptors in the brain for that chemical called adenosine and it will jump onto them and it will block those receptors. So essentially what caffeine is doing is coming into the brain and it is hitting the mute button on your sleepiness signal to the brain.

Now it turns out that caffeine has a half-life of about 6 hours. It has a quarter-life of 12 hours, and what I mean by that is if you have a cup of coffee at midday, a quarter of that caffeine is still circulating in your brain at midnight. So if you have a cup of coffee with lunch, it's the equivalent of tucking yourself into bed at night, at midnight, and just before you turn the light out, you swig a quarter of a cup of coffee and you expect a good night of sleep and it's not going to happen. So that duration of the action of caffeine I think is probably underappreciated by a lot of people out there.”

Because of the prolonged after-effects of caffeine, Dr. Walker recommends abstaining from coffee approximately 12 to 14 hours before bedtime. That means, no coffee after around 12 noon. Perhaps we all can practice replacing the afternoon coffee break with a healthy vegetable ‘no sugar added’ smoothie.

Inadequate sleep can lead to gaining weight and even to obesity. When a person has less than 6 hours of sleep a night, 2 very influential appetite hormones in the body can begin to function in ways that are contrary to their usual roles. One of these chemicals, *leptin*, normally has the role of informing the brain when the body has had sufficient food and is no longer hungry. Its counterpart, *ghrelin*, is designed to play the opposite role with the message that the person is still hungry and should keep eating. A lack of sleep can lead to messages to keep eating even when a person has already consumed enough food. As a result, people who regularly sleep only 5 or 6 hours a night will consume about 300 more calories per day than people who sleep 8 hours a night. That can result in 10 to 12 pounds of unhealthy weight.

In addition to his advice on caffeine and food, Dr. Walker has 4 tips for better sleep:

1. Maintain regular sleep hours by going to bed and getting up at the same time every day.
2. Keep your bedroom cool.
3. Turn off devices with screens and dim room lights during the last hour before going to bed, and keep your bedroom dark until you get up.
4. If you have trouble falling asleep, don’t stay in bed. Get up and walk around a bit or sit and read for a few minutes until you’re quite sleepy. That way your brain will regard your bed as a place to sleep, not to lie awake.

Can we sleep less during the week and then make it up over the weekend? The answer is no, you cannot really go into “sleep

debt” and repay later, according to Dr. Jennifer Martin, a professor of clinical psychology at the University of California, Los Angeles (UCLA), and a researcher at the Greater Los Angeles VA [Veterans Affairs] Hospital, where she heads up a behavioral sleep medicine program. Most of us can tolerate an hour’s lack of sleep here and there, but most of us cannot tolerate giving ourselves jet lag every week, say, for example, by staying up much later during the week and then sleeping in on the weekend. A chronic partial sleep debt can lead to mental or physical fatigue as much as a total sleep debt (such as a lack of sleep for 48 hours in a row) can.

## **FOOD AND NUTRITION**

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Nutrition and what we eat is the foundation of our physical and mental performance. Professional athletes believe that you cannot out-exercise a bad diet. *“Abs are made in the kitchen,”* as some would say. When it comes to appearance and performance, nutrition is a much more important factor than people usually give it credit for. In our lives and in our psyches, nutrition comes first. However, just like cultural and religious beliefs, food and eating habits are also very closely entwined with our identity and who we are. That is why talking about nutrition can be a sensitive topic. I know this from experience!

I am vegetarian and I have learned that speaking against meat-based diets can result in a polarizing discussion. I have in fact lost friends who opposed my thoughts on the physical and environmental benefits of plant-based diets. People follow diets for a variety of reasons, and there is no one right way to eat. But, it is absolutely true that what we eat is fundamental to our well-being and performance, and that is why it is important to dig into the scientific research that has been conducted on nutrition and be informed from every possible angle.

Our nutrition habits start to form during childhood. Unfortunately, as kids we ate so-called “regular” meals, and we were not included in the meal preparation decision-making process. Our family or where we lived determined what and when we ate, and these childhood eating habits would stay with us for decades to come, even if we traveled the world and changed dramatically how we lived. Our comfort foods are often those that we ate frequently at a young age—simple, dense, processed meals like macaroni and cheese or mashed potatoes—and what we were taught at a young age can be difficult to dislodge or challenge. You have no doubt heard presented as “fact” that meat is the only way to get protein and that children need animal milk to grow and strengthen their bones. It can be hard to let go of these early lessons that do not serve us well.

When it comes to food, our brain’s hard-wiring is very difficult to change. To illustrate with a longer spectrum how important the effect of food is on who we are, consider that the very shape of human heads and the size of our brains was determined millions of years ago by a change in our ancestors’ diet. A part of human evolution was the ability to cook and therefore eat and digest a wider and wider variety of foods.

Cardiologist Dr. Joel Kahn is one my favorite health experts. He has authored numerous books about health and diet including *The Whole Heart Solution* and *Dead Execs Don’t Get Bonuses*. He began his career performing intensive heart surgeries, but after realizing how important diet is and how a poor diet can lead to many heart problems, he started treating patients holistically by talking to them about nutrition—before they actually ended up on the table in front of him.

Every year, about 800,000 Americans have heart attacks. That is fairly close to the population of Seattle, Washington. Imagine, the equivalent of the entire population of one good-sized city felled each year by just one disease. As I researched

and studied these types of matters, I became intrigued when I read how a person's diet can play a major role in both exacerbating and preventing heart disease. I wanted to know precisely what I could do to help myself be healthier and live longer. I was immediately fascinated when I read in one of Dr. Kahn's interviews that he had seen thousands of patients whose symptoms of heart disease and patterns of poor sleep were changed after starting a plant-based diet. I was hooked!

Within an hour of a meal, your blood vessels either favorably or unfavorably begin responding to what you have consumed. For instance, it has been shown that within 45 to 60 minutes of eating a breakfast sausage muffin, like what you might find in a fast-food restaurant or at a gas station's convenience store, your heart arteries will begin to malfunction for some six to seven subsequent hours.

Dr. Kahn himself is an example of how our lives inform our diet. After his childhood experiences with a kosher diet, and then reading about heart health and similar topics while attending university, he embraced a fully vegan diet. He has experienced firsthand as an individual and doctor how what we eat affects our sleep, longevity, performance, and ability to handle stress. In sports and athletics, and to some extent with the general public as well, there is this misconception that the only protein we can get is from animals and that you cannot get sufficient protein if you are not eating meat or fish. But according to research presented in Dr. Kahn's studies, for most people, a naturally lower protein diet favors avoidance of disease and superior longevity. This is also true for professional athletes who want to be protein focused. They need to know that the 21 amino acids found in plants are the same amino acids found in meat. The ratios may be different, but the additional nutrition absorbed from plant-based diets (such as fiber, phytonutrients, and antioxidants like carotenoids that support a good anti-inflammatory response) are more beneficial for the results athletes are

seeking. On the other hand, what often accompanies the animal food products we consume, in addition to the amino acids, is not always desirable. These include hormones and antibiotics that might be injected into the saturated fat content, which are generally believed to lead to a greater risk for heart disease and cancer. I grew up as a horse rider and much of my childhood was spent in and around stables. Every time someone asks me how you build muscles by just eating vegetables, I remind them how muscular horses are and what their diet is based upon.

Stay away from processed, high saturated fat, high trans-fat, high sugar foods. Not everything being sold in grocery stores is food, and not everything served in restaurants is eatable. Do not let the bad foods enter your body! Instead, focus on brightly colored vegetables; complex carbohydrates such as whole grains, corn, and brown and wild rice; fruits; healthy sources of fat such as nuts, seeds, olives, and avocados; healthy legumes such as beans, peas, and lentils; and only very high quality animal and seafood products.

**G-B-O-M-B-S** is a handy little acronym promoted by Dr. Kahn and many other experts as a way to remember what is best to eat. Please, put some GBOMBS on your plate every day(!):

**G** is for greens.

**B** is for beans, and that includes peas, lentils, and other members of the legume family; natural soy products; tempeh; and edamame.

**O** is for onions, and I put garlic right in this category too. These are very sulfur rich foods that produce antioxidants in your body.

**M** is for mushrooms of any kind. There is much data available online about mushrooms and their benefits in helping to reduce the risk of cancer as well as lower your cholesterol. They share with oatmeal certain products called beta-glucans which have been proven to lower cholesterol levels.

**B** is for all sorts of berries. Whether you are on a paleo diet, a keto diet, or no formally named diet plan whatsoever, everybody loves berries. They are low glycemic powerhouses of antioxidant fiber.

**S** is for seeds, and my favorites are ground flaxseed, chia, hemp, omega-3 rich pumpkin seeds, and sunflower seeds. Seeds are also natural powerhouses and they tend to have a very good effect on our cholesterol even though they are rather calorie dense. You need to practice restraint and do not eat, for example, an entire bag of sunflower seeds in one sitting. If you do, with one pound (454 grams) of sunflower seeds, you will be counting over 2,600 calories! Yikes!

## **CHANGING THE DIET**

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*“To improve is to change; to be perfect is to change often.”*

This is my favorite Winston Churchill quote. He was Prime Minister of the United Kingdom from 1940 to 1945, when he led the country to victory in the Second World War, and he then served again as Prime Minister from 1951 to 1955.

Starting this subchapter on changing one’s diet with a quote from Winston Churchill could certainly be considered a type of oxymoron. As historians have noted, Churchill was outspoken on the sacred rites of smoking cigars and drinking scotch before, after, and during meals—and in the intervals in-between. He was also exceptionally active mentally though and lived to be 90. Of course, almost nobody would be willing to follow Churchill’s example in taking such poor care of their physical health. As life expectancy continues to rise, we all should be doing more and more to ensure that our lives, since for the most part they are going to be long, are also going to be healthy. The American Heart Association now recommends 30 minutes of moderate

exercise five days a week. Not surprisingly, many large employers either offer gym membership coverage or provide gyms on-site. If you are traveling, you are almost guaranteed to have a fitness center in any decent-sized hotel. And you may even have to get in line to use the equipment!

Studies have demonstrated that regularly eating processed meats can cause considerable harm, including increasing the potential for cancer and heart disease. For years, scientific literature has subtly hinted about the dangers lurking in the bacon cheeseburger we buy at the drive-in, the hot dogs we consume at the ballpark, and the pepperoni we insist be placed on our pizza. But their cautions have for the most part been doubted, and challenged, and certainly not widely accepted, primarily because of social and cultural backgrounds surrounding food issues. All of that murkiness ended though on October 26, 2015. That day, the International Agency for Research on Cancer, which is a component of the World Health Organization, after reviewing some 800 studies, announced that processed meats *cause* colorectal cancer. This is a very important statement from WHO. They used the word “cause” and not the word “associated”. Usually, food scientists use the word “associated” because they may not have enough data to 100% prove the cause-effect relationship between a particular food and cancer. But in this announcement, the experts at WHO were convinced. They placed processed meat on the list of items called Group 1 carcinogenic.

Certainly, processed meats do not cause as many deaths as smoking or asbestos do, but they are all now considered definite causes of cancer and are all now classified together as such by the World Health Organization. The scientific community’s data has never been denied. It has been analyzed, reanalyzed, tweaked, and added to for quite some time. For instance, since the announcement by WHO, studies have been published which show that consuming red meat increases the risk of pancreatic cancer by about 48%.

Processed meats should either be omitted from your diet entirely or should only be considered a rare treat, and there are certain people who should not be partaking in processed meats at all, including those individuals trying to reverse type 2 diabetes and those with advanced heart disease or congestive heart failure. There is so much data and evidence that it is now almost impossible to deny the reality that processed meats are harmful.

One of the first questions in any discussion about the harmful effects of processed meats (and many other types of unhealthy foods) is whether or not it is okay to consume such items in moderation. Before answering that question, we first of all need to define the word “moderation”. If moderation for a standard American is a burger, fries and shake, maybe even more than once a day, that is not moderation. In 2018, a leading nutritionist concluded that to avoid disease and prolong your life, you should have 18 or 19 plant-based meals a week, and two or three meals of fish a week. It is important to note that these findings were not published as a result of passion, or emotion, or industry-funded studies. They were based on research that looked at such factors as aging pathways, disease pathways, and how the constitution and percentages of amino acid protein in meat differs from what is found in plants. [

These days, athletes who want to adopt a diet that favors slowing aging pathways and enhances recovery pathways, often choose a very low meat or no meat diet.

What therefore are the best ways to transition to a better diet?

Experts will affirm that one’s diet is often based on psychological underpinnings, and we all know that change of any type can be hard. One of the main psychological theories of change is known as Prochaska and DiClemente’s Stages of Change Model. This model describes five stages that a person goes through on their way to change: precontemplation, contemplation, preparation, action, and maintenance.

**Precontemplation** is the stage at which a person has no intention to change their behavior in the foreseeable future. Many individuals in this stage are unaware or “underaware” of a problem. Some people call this phase the denial phase. In this stage, there is nothing you can do to change a person if they themselves do not want to change. If we may be so bold as to rework a well-known phrase, you can lead a human to water, but you cannot make them drink. For example, if this book or this chapter does not lead you to change a poor diet or some other detrimental life habit, then you are in the precontemplation stage and not ready for change. Most often, the first sign that a change in diet or lifestyle may be necessary is a health issue such as excessive weight gain, a stroke, a heart attack, or a doctor advising that one’s cholesterol or blood pressure is too high. This type of situation grabs a person’s attention and lets them know that change is needed.

**Contemplation**, also known as the getting ready stage, refers to the stage where a person is intending in the foreseeable future to make some changes (usually within the next 6 months). In the contemplation stage, a person will start to take small steps toward their behavioral change, and they will begin to believe that changing their behavior might lead to a healthier life. We hope you are in this stage after reading these pages. We shared earlier in this chapter emails from traders explaining how reading my books and/or joining Bear Bull Traders was just the catalyst they needed to begin to change. By changing their diet, giving up alcohol, and introducing better sleep patterns, they were able to improve their lives.

**Preparation** is the determination stage. This is the stage where a person is ready to take action shortly (usually within the next 30 days). Building upon the contemplation stage, a person will take more and more steps toward their behavioral change, and they will have come to realize that changing their behavior will lead to a healthier life. Of course, a complete and

total shift to veganism is not the only way. These kinds of extreme changes are simply a set up for failure. Instead, we suggest starting with something small. If you would like to change your diet, begin by getting breakfast under control, as it is the most personal meal of the day and the easiest to change. You really do not have to have meat for breakfast. Leave the bacon, ham and sausages in the store's refrigerated units. Don't buy them. Don't bring them home. You don't need them. At the same time, learn how to make a smoothie, learn how to make oatmeal, learn how to make overnight chia pudding, and learn how to make a tofu or tempeh scramble. What about a big bowl of salad for breakfast? It might sound crazy to North Americans, but many people in Israel and some other countries enjoy vegetables and gigantic salads for the first meal of the day. We hope this short little paragraph will inspire you to try something different for breakfast. Implementing change to your breakfast routine is not really all that difficult. And it will improve your health!

**Action** is the stage where a person has recently (defined as within the last 6 months) modified their problem behavior and/or acquired new healthy behaviors. In addition, a person will at this stage have every intention to keep moving forward with their behavioral change.

At this stage, now that you have mastered your breakfast, it is time to focus on your lunch. You should really eat one salad bigger than your head (literally!) every day with every color in the world in it. And lunch is the perfect time to do so. You can fill your bowl or plate up as much as you would like to, but do watch the dressing. Learn to love vinegars and the taste and smell of lemon juice and olive oils. Whatever you do though, do not use store-bought Thousand Island dressing as your old-fashioned comfort food! Remember, not everything that is being sold at the grocery store is actually food. If you work or go to school outside of your home, bring lunch with you. That is the best and

healthiest thing you can do, and you will also save money as whole food plant eating is not that expensive. Only go to a restaurant for lunch on the rarest of occasions.

Mike and I have a confession to make—right here. Controlling your dinner (called supper in some cultures) is a much more difficult endeavor. The main meal of the day is associated with our lifestyle and our social circle. Fortunately, plant friendly restaurants are located almost everywhere nowadays. If you are in a restaurant that does not offer plant-based food, you should look at the side dishes. I cannot tell you how many times my dinner has been something along the lines of mashed potatoes, broccoli, and green beans because that is what the side dishes were at the restaurant I was out with friends or family at and nothing else on the menu really worked. Order up some sautéed spinach and ask for a whole wheat pasta with garlic and (more) spinach. You can even be brave and politely ask your server to leave the cheese off.

No cheese? It may not be common but there is no law declaring that, for instance, you cannot have a pizza without cheese. You can have almost everything that you love, but you do have to find a healthier recipe for it. If you love chili, find a great bean chili recipe. If you love pizza, find a great cheeseless pizza recipe. If you love burgers, go and explore all of the plant-based burgers that everyone seems to be promoting. We can argue if Beyond Meat veggie burgers are healthier or not, but at least we know that they are much more friendly for the environment as animal farms use excessive amounts of water and energy. For example, as of 2019, depending upon the source, some 15% to 17% of the Amazon rainforest, considered the “lungs of our planet”, has been destroyed. Sadly (in my opinion), much of it has been replaced with cattle ranches.

You may not feel dramatically better if you switch out a beef burger for a pea protein or soy protein burger, but it is a step. For some people, it is not the burger they love as much as being

outside, with friends and family, and a barbecue. BBQing a veggie patty and zucchini and mushrooms can be fun and relaxing too. Learning what you truly love can make change much easier.

**Maintenance** is the final stage. A person will have sustained their behavioral change for some time now (at least 6 months) and they will have every intention to maintain the change going forward. You do need to work though at preventing a relapse from occurring. The most important part of sticking with a better diet is to have a support group of family and friends walking with you. When I decided to make the change to a healthier way of eating, my partner supported me. She switched to a vegetarian diet herself, and although she was only a social wine drinker, she stopped bringing wine into our home. Just as traders require some sort of community and support, you also will need support in order to maintain your behavioral change.

Nutrition expert Dr. John Berardi is a track and field coach, as well as a cookbook author and a certified strength and conditioning specialist. He is the co-founder of Precision Nutrition, a coaching firm that has helped thousands of clients and fitness professionals. Dr. Berardi explains why so many people find dieting difficult:



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I think a lot of healthy eating attempts fail when people try to compartmentalize their lives. When they think of healthy eating as its own thing, unrelated to their lifestyle, their cultural background, their emotional relationships with food and social pressures around food and drink, anyone who actually applies a self-awareness

lens to their food will realize that their food choices are largely governed by not what's on the package."

Dr. Berardi believes that there are two components that must be taken into account in successful dieting: what you eat and how you eat. He explains:



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"When it comes to what you eat, my favorite way to level up nutrition, if you're training regularly that is, is to do an audit of your protein and vegetable intake and make sure that you're eating enough of each. So, this will help control appetite, boost recovery, and provide essential nutrients for both performance and health.

When it comes to how you eat, my best advice for most people is to slow down. Eating slowly allows you to sort of sense into why you're eating at any given time and better tune in to your hunger and appetite cues. And this, without strict rules around what you should be eating, helps people make better choices. Enjoy those choices more and learn to stop eating when you're satisfied, instead of stuffed, which is a thing for people. I mean, it's a skill to develop, the ability to stop when you're feeling fine with a meal, rather than going on and eating too much."

To help in this process, he recommends keeping an “eating journal” to document how much time you spend eating and to what extent you are thinking about it:



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“While you’re eating, you think about whether you’re tuned. In other words, you’re paying attention to how your food looks and smells and tastes and how you’re feeling inside your body while you’re eating versus being tuned out, where maybe you’re watching TV or surfing the web or thinking about other things.

And so, that slowing down becomes sort of a mindful active process. And then, once you have that awareness, that’s a new skill for you and then you can take it into other goal sets. And so, clients often are uncomfortable with the simplicity of this approach. They’re like, ‘Wait, I need to be doing way more than this. I’m still eating pizza though. You want me to eat pizza slowly and mindfully?’ Yes. Yes.”



## CHAPTER 9

# CONCLUSION

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**A**s I explained in the introduction, the focus of this book is on the psychology of trading rather than the technical aspects. Its purpose is to “take you from abstract concepts to real-life examples from inside the minds of real traders like yourself ... so you can learn from them in their own words.”

I’m very grateful to the dozens of traders and traders-in-training who were willing to share their stories, for better and for worse, so other retail traders could learn and grow as traders and as people. I sincerely hope that you have found the book helpful.

Here are some highlights of key points from my own commentary in the preceding chapters.

### **Trading: A Different Kind of Business (Chapter 1)**

- Traders are independent entrepreneurs and must treat trading as a business.
- Trading is an unconventional business based on probabilities and risks.
- Traders are responsible for all decisions—good and bad.
- Beginning day traders should put a limit on how much money, time, and energy they will initially invest.
- “Scared money never wins.”
- There is no shame in failing as a trader.
- For traders, feeling uncomfortable is the new “comfort zone.”

- Traders need to be prepared for the unforeseen.
- For perfectionists, trading is a nightmare.
- Becoming a successful trader in the “second half of life” requires planning well in advance.
- There will always be losses in trading.
- Approximately 90% of all profits are the result of 20% of all trades. Trading is a “minus-sum game.”

### **The Power of Resilience (Chapter 2)**

- Resilience can be a major contributor to a trader’s success.
- There is evidence that resilience can be taught and learned.
- Effective traders accept reality, believe that life is meaningful, and are able to improvise.
- Successful traders embrace failure and are able to learn and create meaning from it.
- Early losses in a trading career can be regarded as the tuition fees for learning how to trade.
- Maintaining a written journal is an effective way of dealing with stressful events.

### **Psychological Hazards in Trading (Chapter 3)**

- Although it is very tempting to average down on a losing trade with the hope of getting out at break-even, traders in general, and especially new traders, should not attempt it.
- Trying to turn a day trade into a swing trade is very risky.
- Consistent traders focus on making One Good Trade after another. A small loss can still be considered One Good Trade.
- Trading can be addictive and “Crack Addict Trading Syndrome” can lead to personal and financial disaster.

- Overtrading and revenge trading are symptoms of loss of control. The remedy is to immediately stop trading.
- Trading for money is an appropriate long-term goal but an unrealistic daily hope.

### **Psychological Safeguards in Trading (Chapter 4)**

- New traders must remember that they are only one bad trade away from being kicked out of their business. They also need to remember that they are alone in their trading endeavors.
- Setting daily profit targets is a fundamental tool for managing risk in day trading.
- The goal of a successful day trader is to discover the balance of power between the buyers and the sellers and then bet on the winning group.
- Clear and definite rules must be an essential part of every trader's game plan, but the best rules in the world are useless if a trader is not able to follow them at crunch time.

### **Staying Focused (Chapter 5)**

- Mastering only a few solid setups is sufficient to be consistently profitable in trading. In fact, having a simple trading method consisting of a few minimal setups will help to reduce confusion and stress and allow a trader to concentrate more on the psychological aspect of trading, which is truly what separates the winners from the losers.
- Winners think, feel, and act differently than losers.
- Finding and then monitoring just a handful of the day's Stocks in Play is an effective strategy. Those Stocks in Play will change every trading day.
- Traders who are consistently profitable have studied the fundamentals of trading and have learned how to make

well-thought-out and intelligent trades. Their focus is on the rationale for their actions rather than on making money. Amateurs, on the other hand, are focused on making money every single day. That kind of thinking can be their worst enemy.

- The key for new traders is to master one simple strategy.
- Chasing stocks is a deadly unforgivable sin in day trading.

### **Knowing Yourself As a Trader (Chapter 6)**

- No matter what style of trading a trader chooses, they have to make sure that it truly fits their personality and risk tolerance.
- Expecting to make a sustainable living from trading within the first few months of exposure to day trading is simply unrealistic.
- A recommended formula for developing trading skills is always to expect success, and always to define success as the making of good trading decisions—not to focus on absolute profitability in terms of days, weeks, months, or years.
- Online trading rooms are excellent places for meeting other traders, and they can be powerful learning tools.
- Successful traders are independent thinkers. They use their judgment to decide when to trade and when not to.
- Fear of Missing Out, or FOMO, is perhaps the deadliest of all trading sins that one can make. It is wishful thinking, and it can be a very costly trading mistake to jump into a trade before a pattern has either formed or been confirmed.
- The first step in improving trading is to set time aside for self-reflection—every day and every week—because that is how patterns of behavior will turn into habits.

- Losing trades will never be a total loss as long as the trader embraces them and learns from them.
- Writing in a journal or talking aloud for a half hour each day has a powerful effect on enabling people to cope with challenging emotional circumstances.

### **Setting Goals (Chapter 7)**

- Many traders try to set goals only when they're trading poorly or losing money. However, goal setting, learning and improving one's trading skills are an ongoing part of this career. Goal setting in trading is not about making money, it is about creating and developing skills, competence, and confidence.
- The #1 goal of traders is to be constantly improving. If they manage their trades better today than yesterday, that means they are improving and becoming better traders.
- Virtually every single new trader struggles. Even the most experienced of traders can go through rough patches. The struggles are very real and can be very emotionally painful and draining.
- Documenting trades is an excellent way to learn from mistakes.

### **A Disciplined Lifestyle: Diet, Exercise, and Sleep (Chapter 8)**

- Being disciplined, more than anything else, will impact and improve trading results.
- Self-development, every day and every week, can turn behavior patterns into habits. A great trader is simply one who has made a habit of self-development.
- Traders who are experiencing periods of failure need to recognize that they are far from alone; everyone encounters

times when things are not going as they had planned and hoped.

- Personal resources, especially spouses, siblings, and close friends, can provide essential emotional support and help to keep a person grounded. It really doesn't matter if they know anything about trading; it's their ability to practice unconditional caring and support that can be most helpful.
- Two components must be taken into account in successful dieting: what you eat and how you eat.
- A positive mindset and the ability to recognize the importance of small incremental steps toward recovery can achieve much more than we might have known.
- Adequate physical exercise, proper diet and nutrition, and quality sleep, all part of a disciplined lifestyle, have been shown to improve cognitive performance and overall well-being.

To improve is to change, to perfect, is to change often.

Thanks for reading the book. We wish you  
success in your trading endeavour.

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and

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***Happy trading!***