INTERNATIONAL DAY TRADING ACADEMY

THE LEFT MINDED TRADER

HOW TO TRADE WITHOUT EMOTION

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ABOUT THE AUTHOR

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Since 2014
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I am the Co-Founder and Director of the International Day Trading Academy. I have a background and a degree in teaching and I'm a passionate trader.

I'm well-recognized and highly respected in the IDTA trading community as an expert in the psychology of trading, economic cycles of trading, and Investments.

I have an extensive history in share trading, real estate, property development, and other forms of investing.

Since 2014 I have been a regular contributor for Australia's largest trading publication, Your Trading Edge magazine. I've contributed articles about psychology, forecasting, and technical analysis.

I hope that in reading this book you are able to improve, or build a foundation of trading psychology that can help you be the best trader that you can be.

To your success,

Cameron Buchanan
Professional Trader and Educator

INTERNATIONAL DAY TRADING ACADEMY

CHAPTER ONE

INTRODUCTION

For the novice looking at trading for the first time, it may seem that making money trading is simple, all you need to do is learn a strategy and some technical skills. The novice quickly learns that creating a simple trading strategy based on tips and tricks from various sources online does not equate to a consistent performance. There is a need for a more reliable, proven strategy; with this new-found strategy to follow it will be simple to make money, surely. This is not the case for many, in fact, 90% of Futures traders will fail within their first year of trading. For many of them their problem is simple, they have diligently studied a trading strategy but completely neglected the need to develop a traders mindset.

I don't say this to dismiss having a solid trading strategy, or technical skills, these are of course a necessity and should be studied diligently. What I have noticed though in my years of teaching students to trade is that there is a reluctance to acknowledge the importance of mindset in trading. There seems to be a want to focus almost solely on the technical aspects and thus the psychological skills fall by the wayside.

I will say that this does not surprise me. Consider anything that you've ever taken up learning, any skill; you've likely begun with the theory to gain a basic understanding, then moved on to the practical applications and physically practiced that skill. But, can you think of any skills that you have learnt where you had to recondition, or even just consider the way in which your brain naturally behaves? Psychology does not often play a heavy role in the success of a particular skill that you may want to learn, so it is natural to not even consider it. However, trading is a high performance activity and should be treated like a business. With this principle in mind, people who endeavour to perform at their highest respect the mental game of their chosen profession. As you will learn throughout this book, the psychology of trading plays an enormous part in the success of a trader and it must be mastered in order to be consistent and profitable as a trader.

The Left Brain vs the Right Brain

If you are not already familiar with the two halves (hemispheres) of the human brain, let's introduce their roles and responsibilities. The human brain is both rational and irrational, the left hemisphere of the brain controls the rational and logical, the right controls emotion (often irrational) and creativity. Both are needed in order for us to function efficiently as humans, and each integrates with one and other to output thoughts and actions.

No hemisphere is better than the other, but for traders it is far more advantageous to lean toward the left hemisphere. Let's consider some of the characteristics of the left hemisphere of the brain, they are: Logic, Mathematics, Sequencing, already you can see that these are important when thinking about trading. Switching to the right hemisphere and we have characteristics such as: Daydreaming, Imagination, and Emotion, so trading does not have any room for these aspects.

The human brain is possibly the most complex thing in existence, it's a bundle of nerve fibres containing about 100 billion neurons and 100 trillion connections, it seems unreasonable to suggest that you should be able to control it at whim, it's true, it's not easy, this is why you must train yourself to be more left minded when trading. By the end of this book I'm hopeful that you will be able to recognise when you're letting the right side of your brain negatively affect your trading, and have the skills to correct that thinking, and be a left minded trader.

CHAPTER ONE

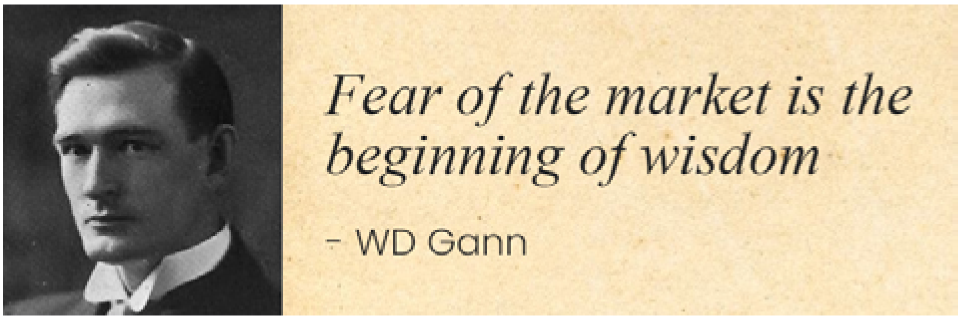
FEAR IN TRADING

There are a number of emotions that are prevalent in trading, and they reveal themselves in a number of ways. These emotions are especially present in beginner or inexperienced traders.

Fear/Nervousness

Fear is an important emotion in life, it stops us from hurting ourselves and limits the amount of risk we allow ourselves to be exposed to in everyday life. The famous trader of the first half of the 20th century, WD Gann once said **"fear of the market is the beginning of wisdom"**. What he meant was that fear is to be respected and acknowledged, and one must understand where it comes from and how it affects us. It can't dominate our decision making in trading.

Feelings of fear convey various messages to different levels of trader. Fear is teaching us something about ourselves that we need to understand deeper. How we use the feelings of fear is what is important to recognize, because fear is a powerful emotion and energy that needs to be transmuted, to enhance our skills as a trader. However in trading, fear works mainly against a trader, especially the new trader. Fear is probably the overriding emotion for inexperienced traders.



Fear of losing/ Fear of failure

As traders we must accept that there will be losses, they are inevitable. It is however very easy for beginners to be fearful of losing capital. The left minded trader understands that losing is ok, they follow their strategy and trading plan and trade without emotion. A trader that is able to do this, and balance their risk to reward ratio correctly (2:1 is ideal) only needs to be right about 50% of the time (win rate) in order to be profitable. When a trader begins to react to fear or freeze from fear they tend to become less successful than they should be.

Tips for overcoming fear of failure

Acceptance of risk is key. The left minded trader accepts that there will be losses and does not let a loss or string of losses influence their next trade. They understand the probability mindset needed to be a trader. They understand the mathematical relationship between risk to reward, and win rate. Risk to Reward means how much am Ii prepared to lose (risk) to achieve my goal (reward). This has to be very logical and clearly stated in a trading plan. For example one theory is to make sure that your risk to reward is balanced such that larger winners account for your smaller losses.

Allowance of feelings

Processing the emotions of fear before taking another trade. If you are feeling affected by your emotions, let the emotion burn out of your body and brain, before making a decision to behave a particular way. Becoming very conscious of your emotions and understanding psychological concepts like cognitive emotive looping patterns is very important.

Fear of success

The fear of success is difficult to understand for some, it is completely counter-intuitive to what is expected based on traditional feelings toward success. The fear of success often leads to a trader giving back profits to the market and promotes self sabotage.

Tips for overcoming fear of success

Simply put, in order to overcome the fear of success the left minded trader accepts that they deserve their success for following their strategy and sticking to the plan. However a lot of the reasons why we create failure is because deep down and in the unconscious mind we don't feel worthy, or try so hard to prove our worth that we take shortcuts and in fact get the opposite of what we consciously want, however reinforces the unconscious beliefs that we are unworthy and not good enough.

FOMO - The Fear of Missing Out

The fear of missing out is a very difficult fear to overcome and it presents itself often. This is a strong fear throughout our lives in general, a salesman for example may leverage a limited offer to play off of your fear of missing out. So what is FOMO within the realm of trading?

A trader suffering from FOMO may identify a potential trade and enter immediately and without the right level of thought, or taking shortcuts and not following their rules before doing so.

Common traits of a FOMO trader

Follower: Following the herd can be a risky business, just because traders are making money doing something does not mean that their strategy matches yours or that it will work for you. Thinking that other traders "must know what they're doing" or "They must know something that I don't" without knowing the context of how they are doing it and why is not going to lead to consistent trading.

Spontaneous: It's not uncommon for a FOMO trader to "just give it a go" and "see what happens". Of course this is a bad way to manage your trading. This mind frame shows indecision and ill discipline, there is no chance of consistency with this mindset.

Overly optimistic: Concentrating on how much could be made on a certain trade, rather than the fundamentals and risk management techniques is always a bad idea. I will discuss greed a little later on and just how detrimental it is to consistency. For now, let's just say chasing home run trades is not a sustainable practice.

Prone to hindsight: Once all is done and the trade has settled negatively, FOMO traders often concentrate on hindsight telling themselves "I should have known that would happen". Dwelling on past trades puts a trader in the completely wrong mindset for future trading. If you "should have known that would happen" then you've already told yourself that you have given in to the fear of missing out, and have not followed your strategy or your plan.

Envious/Jealous: A driving force for some, envy/jealousy can spark FOMO, if everyone else is profiting from an opportunity it's simply unfair for a jealous trader to be missing out.

Short sighted: At the crux of FOMO mentality is the short sightedness of not realising that the market offers many opportunities. If you miss this opportunity, simply wait for the next one. Short sighted traders that fixate on what could be often fail in reality.

FOMO Trader's Cycle

FOMO Traders vs Structured Traders

Structured Trader Trades a strategy and follows its rules. Keeps a journal and sticks to the plan	**FOMO Trader** Impulsive, chases trends, buys at high points. Does not have a solid plan
Applies technical analysis to gauge validity of trade	Trades rumours, follows opinions of others.
Sets a risk to reward ratio that fits their strategy and plan	May not focus enough on capital protection
Uses both a stop loss and profit targets	Enters too late on a move and panic exits the trade
Has a plan, sticks to it, reviews all trades and seeks to improve	No plan, no trading journal, purely trading emotion

Tips for overcoming FOMO

The left sided trader will understand that the market offers many opportunities and one missed opportunity isn't going to affect the next opportunity that comes along. Be strict with yourself, if a trade doesn't quite tick all of the boxes required for your strategy, it's ok not to trade it even if you think it could be profitable.

Make sure that you do have a strategy and plan that every trade you place must fit into.

Accept that the FOMO exists and that it affects even the most seasoned traders from time to time. Thinking that you are the only person that is affected by FOMO is a lonely, isolating mindset. Failing to accept that FOMO exists and pretending that you don't experience it in any way means that habits are formed and FOMO is ignored when it actually is experienced. This creates a cycle of unsuccessful trading.
Try talking to other traders; FOMO affects all traders at least some times, sharing your thoughts and experiences with others is an excellent way to accept FOMO and work toward avoiding that mindset.

Try Simulated (or "paper") trading. An easy way to remove the emotional attachment of money is to not put your money at risk in the market. If you feel FOMO is overwhelming your trading, open a simulation account if you don't already have one. Practice being emotionless without putting your capital at risk, once you feel confident that you have the skills to combat FOMO re-enter the markets with your own capital.

Things to tell yourself:

"There will always be another opportunity"
"The markets don't care about my emotions"
"Does this trade match my strategy, therefore is it a good trade"

Pre-empting FOMO

There are some things that you can do now that will assist you in avoiding FOMO in the future.

- **Have a strategy (only one):** Every trader should have a single strategy that they trade, preferably targeting just one market and using one type of pattern. If a trader has no strategy and takes too broad a view of the markets there is a larger scope for opportunities to miss out on.
- **Create a trading plan:** A trading plan will help you decide whether you are taking the trade because it conforms to the rules of your strategy, or if you are simply trying to take advantage of the situation
- **Use a trading journal:** A trading journal can act as a way of reviewing your past trading. While reviewing your trades you can identify any times that you may have given in to FOMO. This will give you awareness and help curb the tendency to place trades that don't fit your strategy.
- **Be Constructive in hindsight:** When looking back at previously trades, identify what you did incorrectly, but don't dwell on that facet. Concentrate on what you should have done and how to do things differently moving forward. Simply being negative can lead to things like revenge trading and continuing to give in to FOMO.

MEET SOME OF OUR MEMBERS

Below are some of the video testimonials our members have provided. Learn more about their journey's by watching their video.

Dani M - WA

October 2019

Dani is a mother of two, from Western Australia. She aims to be a 'More Present Mum and Wife'

Watch the Testimonial here >

Greg S - VIC

October 2019

'It's the People That Made the Difference in the Trading'

Watch the Testimonial here >

Nick S - WA

October 2019

'IDTA provide everything you need to know to trade successfully. The skills, the indicators, the platform, the education, everything's there'

Watch the Testimonial here >

Carmel D - QLD

October 2019

Carol has been working toward a 'transition of lifestyle'.Leaving her 12 hr workdays behind to focus on trading.

Watch the Testimonial here >

CHAPTER TWO
GREED

Greed is another common pitfall for traders of all skill levels and experience from time to time. Greed works in the opposite direction to fear in that it is aggressive compared to being passive, however the two are common in destroying consistency in trading.

A trader can experience greed in a number of ways; a common scenario would be when a trader puts more risk in the market than they normally would because they feel that they need to take advantage of an excellent opportunity. It could also be as simple as a trader wanting to make money as quickly as possible, therefore not balancing risk. The best mindset to have when trading is to “go slow to go fast”, meaning that a slow and measured journey will be more successful than a fast and risk heavy one.

Some examples of greed when trading:
- Larger position sizes than allowed in your trading plan
- Adding funds to a winning trade
- Revenge trading

In recent times one example of greed in the financial markets was the rise of Bitcoin. Investors had seen price sky-rocket at an unprecedented rate and wanted a piece of the action, some people going so far as to take out bank loans in order to cash in. Of course for many they were too late and bought at the top of the highs right before things came crashing back down.

Greed rarely breeds success, it is not rational and it leads to poor choices. If “taking advantage” of a situation does not fit into your trading plan or it would extend beyond your rules for risk management, don’t do it. If you fail this test then you begin to look like more of a gambler than a trader and you’ve completely

CHAPTER THREE

IMPATIENCE & EGO

Impatience

Impatience is common in learning any new skill, not just trading. Often new traders will look to start trading as soon as possible, way before they have mastered the fundamentals and put in the practice. It is absolutely imperative that, when learning to trade, you understand the fundamentals (including trading psychology) and it is crucial that you practice on a simulated platform where no real money is at risk.

When starting out as a new trader, even given some success in the early stages, it is important not to look to double down in order to grow your account quickly. Set yourself targets that you will allow yourself to increase your trade sizes once you have shown you can reach them. It is important to prove consistency at a lower level before taking the next step up.

Ego

According to the Australian Taxation Office, in a 2016 report, female futures traders out performed their male counterparts. Obviously there are a number of factors at play, I am of the belief that one key area of difference that may be the cause of at least some of this discrepancy is the male ego. That's not to say that females do not have an ego or that all males have an inflated ego. Men tend to struggle with their ego when it comes to admitting fault, and are generally speaking, are more overconfident.

Ego can create overconfidence, there is not, and will never be a trader that knows better than the market. The financial markets at times won't follow reason and ego can lead a trader to fixate on the market "not doing what it was supposed to do", this negativity breeds mistakes.

My tip: Leave your ego at the door when trading, you cannot boss the markets, and don't take trading personally when it doesn't go your way.

My tip:

Leave your ego at the door when trading, you cannot boss the markets, and don't take trading personally when it doesn't go your way. Most importantly, have a plan and stick to it.

CHAPTER FOUR
TRADING BIASES

The human brain is far easier to trick than we would like to admit to ourselves, and is incredibly prone to bias. There are many types of trading bias that can affect what is truly happening in the market and what you plan is supposed to be in those situations, let's look at a few common bias'.

Confirmation bias

Confirmation bias is the brain's tendency to either seek out, or recall information that confirms a prior belief, hence confirming it. What the brain does by focusing on information that confirms a belief is that it ignores conflicting information. Because not all information is being treated equally there is a potential to draw conclusions that are false.

A trader that suffers from confirmation bias will create their own probabilities based on unbalanced information rather than taking all of the information available to them in order to find the real high probability scenario.

Emotional bias

Emotional bias is when any of the emotions discussed so far subconsciously override factual information. Roughly 80% of the decisions we make are based on emotion versus 20% based on fact.
In a perfect world, a trader would be able to trade 100% factually.
Unfortunately humans simply aren't in control of their emotions 100% of the time. It is our job as traders to balance our decision making as much as we are able. Practice making rational decisions over emotional ones, and learn from the mistakes you make when you make emotional decisions.

CHAPTER FIVE

THE SUCCESSFUL LOSER

The difference between a good trader and a great trader is how well they lose. The odds of being profitable are increased when the size of profits are greater than the size of losses. If you are able to achieve this, your winning percentage can be lower than if the inverse were true.
The best way to achieve smaller losses is to use a predefined stop loss. This means that before the trade is placed a trader has assigned a price point where they believe the trade will not be profitable. When price hits that point the trader will be automatically exited from the trade via their trading platform.

This takes the emotion out of the decision to exit the trade and ensures that the trade fits the traders strategy. Being able to limit the size of your losses and letting your winners run is one of the key skills to trading well. It is very easy to get attached to a trade and to stay holding on in the hopes that it will turn around, but this is a great way to compound losses. The use of a stop loss helps eliminate some of that emotion and helps make you a better trader.

The importance of setting trading rules

Rules are the backbone of consistency, if you restrict yourself to always sticking to what you have planned, you won't stray and make mistakes. You simply cannot trade a proven strategy if you do not follow the rules of that strategy.

CHAPTER SIX

6 TIPS TO AVOID EMOTIONAL TRADING

1. Identify your personality traits

You should know what you are naturally predisposed to. Being mindful of personality traits that may affect your trading negatively will help you suppress them.

2. Develop and follow a trading plan

If you have a solid trading strategy and a plan consisting of milestones, you should always stick to it. If you don't have a trading plan it is difficult to be consistent and to measure your level of success.

3. Have patience

One of the most common reasons why a trader fails is that they rush things and "blow up their account". You must always "go slow to go fast", this includes making sure you have a solid understanding of how to trade before diving in the deep end of trading. You should also take the time to practice on a simulated account. And finally you should always start small and build your way up once you have proven to yourself that you can be consistent.

6 TIPS TO AVOID EMOTIONAL TRADING

4. Take a break after a loss

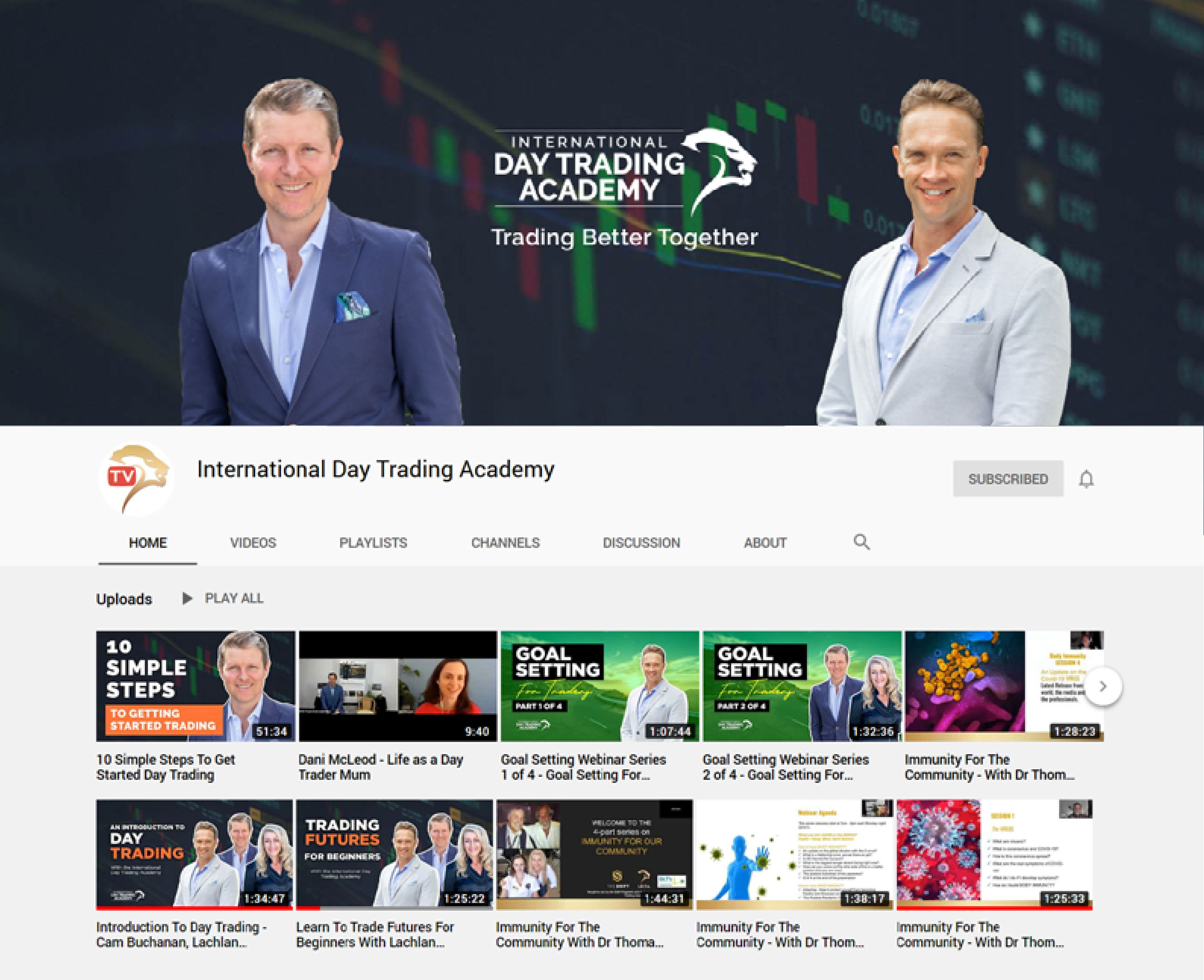
If you are feeling any emotion after experiencing a loss it is ok to take a break. Let the emotion burn out before taking another trade. If you can't shake off the emotion, you could choose to skip a trading session and do something that you enjoy or find relaxing and then pick things up the next day.

5. Accept your winnings

It's tempting after seeing a run of good trades to roll the dice and keep the momentum going. Unfortunately most often doing this leads to handing back profits by over-trading. If you hit your target for the day, shut down your trading platform and come back the next day.

6. Keep a trading journal

A trading journal is the best way to measure your consistency, and see what has worked and what has not worked. It is also a great way to boost your confidence by looking back and seeing how much you've improved over time.



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