7 Traits of Successful Financial Traders

Vince Stanzione

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[1] *These statistics are specific to Deriv Investments (Europe) Limited.*

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WHO'S THIS GUY AND WHY SHOULD I LISTEN TO HIM?

My name is **Vince Stanzione**. I am a self-made multi-millionaire with over 35 years of experience in trading and investing. I'm the creator of the popular course Financial Spread Trading and the New York Times bestselling author of The Millionaire Dropout. You may have come across my name in media, including The Times, Telegraph, Investors Chronicle, Sunday Express, Shares Magazines, New York Times, The National, Global Banking and Finance Review, What Investment, BusinessWeek, CNBC, Yahoo Finance, and Marketwatch, to name a few. I also have students in 109 countries.

I don't tell you this to impress you. This guide is not about my financial success; it's about achieving yours and making you a better trader.

If you're looking for tips on smarter trading, you'll seek out a successful trader. You wouldn't want to buy hair tonic from a bald man, so to speak.

I have made a lot of trades and made plenty of mistakes!

Over the years, I have made thousands of trades in all markets, ranging from forex, bonds, commodities, options, stocks, warrants, cryptocurrencies, and synthetic products. I have traded in all market conditions: during booms, busts, economic crises, and even terrorist attacks.

Besides trading for myself, I have worked for banks and been a broker where I observed clients' trading and have gained a vast amount of experience.

Every trader has their journey and will inevitably make their own mistakes, but this guide aims to help you "stand on the shoulders of successful traders" like me and avoid as many mistakes as possible.

As with many industries, financial markets are full of rumours, false information, and myths. In the following pages, I would like to cut through these and give you some trustworthy information based on the experience gathered by successful traders and facts that I believe will help you make better trading decisions.

So let's see what the 7 traits of successful financial traders are.

Standing on the shoulders of giants

"If I have seen further," Isaac Newton wrote in a 1675 letter to fellow scientist Robert Hooke, "it is by standing on the shoulders of giants."

THEY CUT THEIR LOSSES AND LET WINNING TRADES RUN

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Trading comes down to psychology: everyone wants to win, and no one likes to be wrong or classed as a loser. Most unsuccessful traders take profits quickly, yet they will let losing trades run and run, hoping that things will get better. When I was a broker, I would see this all the time. Clients wanted to get out of winning trades and found it easy to close these out, but getting them to close losing trades was nearly impossible.

It's a bad idea to remain in a losing trade, where you might sink deeper and deeper. Look at Table 1 to see why it's particularly difficult to get back from a loss.

Percent loss	Percent gain	Percent loss	Percent gain
5%	5.3%	55%	122.2%
10%	11.1%	60%	150.0%
15%	17.6%	65%	185.7%
20%	25.0%	70%	233.3%
25%	33.3%	75%	300.0%
30%	42.9%	80%	400.0%
35%	53.8%	85%	566.7%
40%	66.7%	90%	900.0%
45%	81.8%	95%	1900.0%
50%	100.0%		

Table 1. Returns needed to break even

You can lose more often than you win and still make money

If I said, “I have a system that loses money 7 out of 10 times,” would you follow it? Chances are you wouldn’t. How can a system that is wrong 70% of the time still make money? Because the system loses relatively small amounts, but on those 3 winning trades, the winnings are big.

Put in simple terms, imagine that the 7 trades lose $100 each ($700 in total), but the 3 winning trades make $500 each ($1,500 in total). The win/lose ratio is low, but the overall system makes money.

How to avoid big losses? How to cut losses before they become so big that you can’t recover from?
As I mentioned before, if you trade with your emotions storming, you won’t be able to close down losing trades in time. Using an automated rules-based system can help to take the emotions out of closing trades.

I explain more in my new books, *How to Trade Synthetic Indices* and *How to Trade the Forex Market*, which are available free of charge.

Remember that hoping is not a trading strategy. I often see those with losing trades “hoping” that they would turn around. You cannot afford to trade and invest like this — if something is not working out as planned, cut it and get out — taking a small loss now is less painful than taking a significant loss later.

THEY PLAN THEIR EXIT STRATEGY

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Everyone focuses on when to open a trade, but little attention is paid to closing it. Exiting a trade, in my view, is even more critical and challenging than deciding to enter it.

Your exit rule to take a profit or loss should be predefined, not some afterthought you're likely to make based on emotions. Once you get into a trade, your psychological response changes. You will have a "bias" and an emotional attachment that can cloud your judgement.

A tool that you can use for this purpose is a price channel or "Donchian channel" that can easily be added to a price chart in Deriv MetaTrader 5 (Deriv MT5) or Deriv Trader on Deriv.

In Figure 1, you see a 20-day high and low channel; as the price moves up, so does the channel. Think of the channel as a safety net which allows you to lock in profits. You can easily change it to 20 hours or even 20 minutes for a short-term system.

Figure 1. A 20-day Donchian channel

A good tip is to trail stops, which can lock in some profits but keep the trade running. Once a trade moves into profit, you can move the stop loss to your entry point. As a result, the worst-case scenario will be a break-even trade.

Using support and resistance levels can help you find the proper exit point for your trade.

The same is true about using a moving average, for example, a 20-day simple moving average. If you go long (up trade) on a market that falls below the 20 DMA, you would wish to close out.

Figure 2. An AUD/USD chart with a 20-day moving average

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THEY DIVERSIFY

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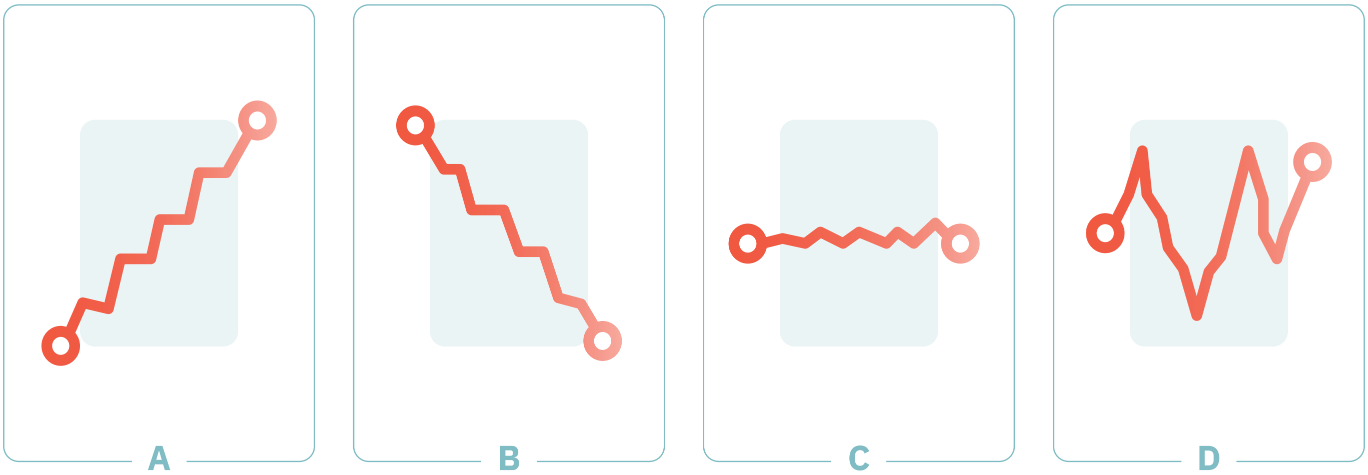

Q: Which market can you profit from?
A: All of them

Successful traders don't take a directional view. They know that thanks to the power of digital options and CFDs, it's possible to make money from markets going up, down, and even sideways (range) trading.

Over the years, I have met traders that are very fixed in their ways. They only trade one market and usually have a bias only to go long. Some traders have an end-of-the-world attitude and are always looking to go short and seek out bad news.

A competent trader is flexible, like a tree: you need firm roots, but the branches should be pliable. And yes, some small branches breaking off (taking small losses) is inevitable, but it doesn't kill the tree.

You need to be ready to trade markets either way. For example, I may go long on a stock that has been in uptrend for many months. But when it breaks that trend, I will sell and go short, allowing me to profit from the up and down moves. I don't get obsessed with a stock or a currency.

Diversifying by trading, for example, Gold, S&P 500, Bitcoin, and USD/CHF at the same time would be far better than just trading one currency pair. Also, by having long and short trades open, you cut down your risk. Think in terms of having a "basket" of trades open, not just one trade.

Whilst many traders concentrate on up and down movements, it is also possible to make money from trading ranges (sideways markets). Deriv has digital options that allow you to profit from the price of an asset remaining in a range.

A ranging market is defined as when the price hits the same support and resistance levels a number of times. What are support and resistance though? Support happens when a falling price gets to a level where buyers are willing to step in, and sellers have dried up. Resistance is where the rising price gets to a point that sellers want to get out of a market, and there are no more willing buyers to push prices higher.

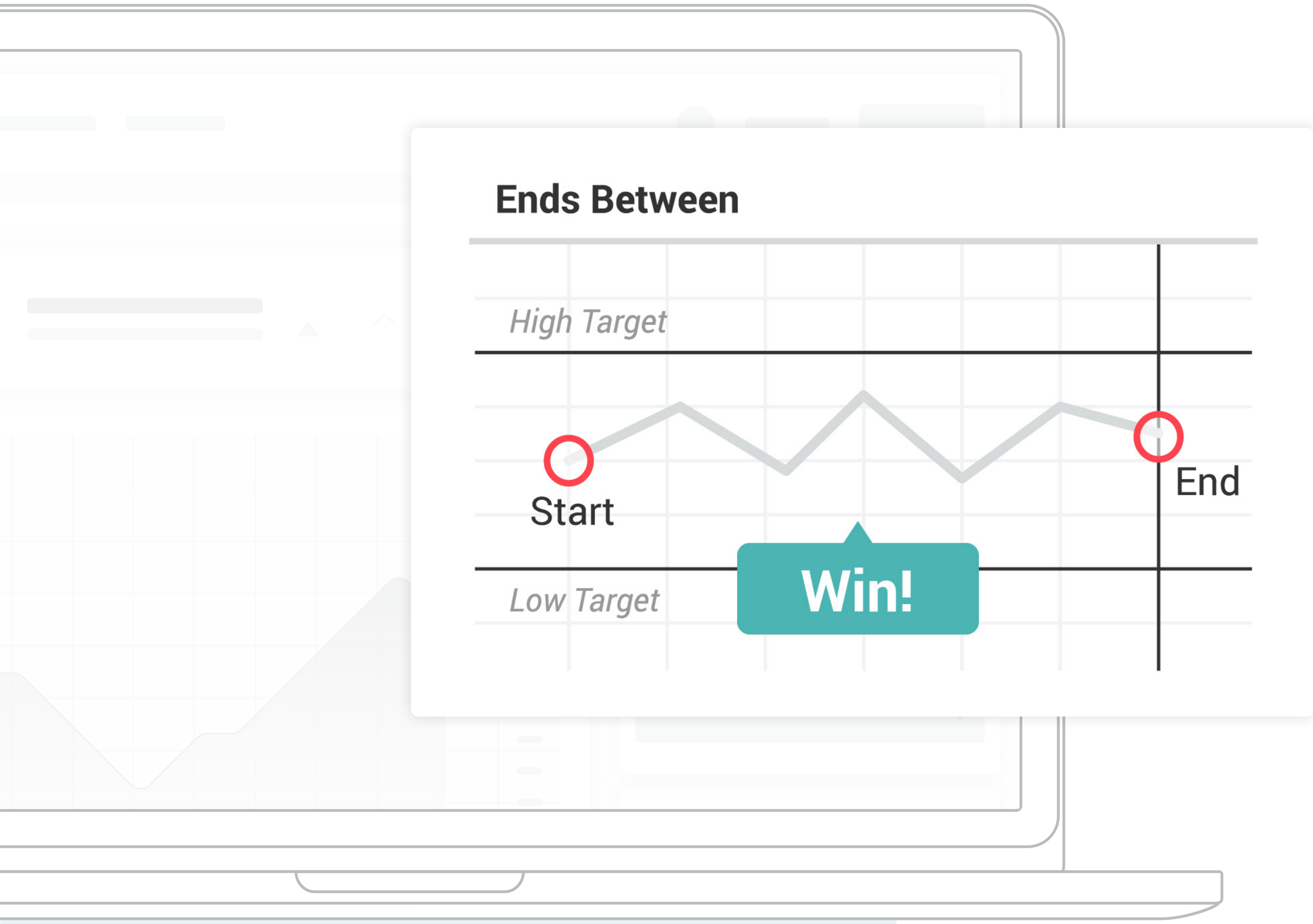

Figure 3. Profiting from a ranging market at Deriv

THEY LET TRENDS BE THEIR FRIENDS

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Experienced traders recognise the significance of trends. Recently, I analysed my trades regardless of the market to see where most of my profits came from. The answer was: from “trend following”.

A trend can last for weeks, months, and even years. Whilst you can make money trading in and out, the big gains will come from riding a trend. Trends can be up or down, but overall you will make more from an uptrend, as a market can go up by an unlimited amount, whereas the most a market can go down is 100%.

Here we see four states of a market. You can profit from all of them, but I’ve found “trading and quiet” the most profitable. If you have a volatile trend, you will need larger stops and margins.

Winning traders trade according to what they see, not what they think

If the price goes to 60, 61, 65, 70, it is going up. It doesn’t matter what the indicator or news says or what you think should be happening, the price tells you the truth and should always be heeded.

Many new traders lose money trying to pick the top or bottom. This is risky and unnecessary. Yes, XYZ could be overvalued, and at some stage, you may be right.

But as John Maynard Keynes, the famous economist, has said, “Markets can remain irrational a lot longer than you can remain solvent.” So avoid guesswork and stick to a trading system.

Of course, you can trade around a position. You may have a long-term trade open as a CFD on the EUR/USD going higher and at the same time a shorter-term digital option open on the EUR/USD going lower.

> Many new traders confuse being “busy” with making money. In many cases, you can leave a healthy trending stock to run. This can be far more profitable than trying to second-guess each twist and turn.

THEY ARE MASTERS OF THEIR EMOTIONS

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"Vince, I was making money on my demo account, but now that I am trading with real money, I keep losing. Has the broker rigged my account?"

The above is from an actual email I received, and I have had many similar ones over the years. No, the broker has not rigged your account, you have! When trading with virtual money, you're probably far more relaxed and less emotional than when you are trading with real money.

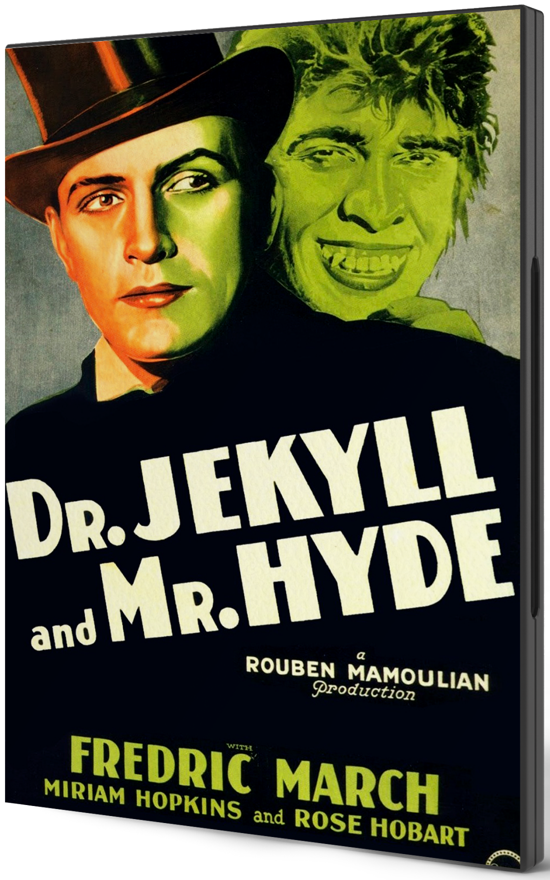
Many new traders overtrade, use too much leverage, and then panic.

If you go through a poor patch of trading, what you need to do is take a step back, reduce your trades' size, and start building up again. Also, beware of outside factors causing you stress. Many factors can affect your trading and judgement, such as a personal relationship, moving home, or other external issues. Using a trading system will help to keep these emotional reactions under control.

Leverage magnifies gains but also losses

Leverage is not a bad thing to have, and Deriv offers leverage on all of its markets, but you need to treat it with care. Many new traders go to the maximum leverage limit they can have. However, it would be wiser to use less leverage — you don't have to drive at the maximum speed limit!

Many also start doubting their trading systems after a few losses and start changing the rules. Of course, we all want to improve systems, but if you keep changing your system, you will never know if it works. Markets don't work as efficiently as we would like. You could easily have 5 or 6 losing trades in a row, and of course, you will then be worried about taking the 7th trade, but that could be a profitable trade and the start of a new trend. Skipping the trend could be a big mistake.



THEY KISS
(KEEP IT SIMPLE STUPID)

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Many new traders think they need lots of fancy software, 8 trading screens, and a super-fast internet connection to succeed in trading, but the truth is although these tools might be helpful, they'll not make you a good trader.

Keep everything as simple as possible. I have seen many traders making money and doing well with simple trading systems such as moving average crossovers. Then they decide to make it more complicated and add more rules and indicators. Yes, you guessed it; they start losing money.

Nothing wrong with testing a new system but don't throw out a winning system just because you have become bored with it.

As for expensive software, Deriv gives you access to a great trading platform, and you can also access Deriv MetaTrader 5 (MT5) at no extra charge. You can look at third-party trading systems and plugins that may help you, especially if you're new. But keep it simple. You don't need to spend thousands of dollars on software.

Deriv also gives you access to Deriv Bot, a way to write simple trading systems without learning a programming language. Automated trading allows you to make trades following your set rules 24 hours a day.

It's easy to get blown away by all the great software, online trading, real-time data, charts, smartphone apps, business channels, and other bells and whistles. The truth is, less is more, and information overload makes you a worse trader. The more complicated your system, the less chance it has to work or that you will follow it.

The majority of technical trading indicators are a total waste of time. You do not need to waste money on expensive trading software that claims to predict markets. The most important factor when trading any market is the price.

THEY KNOW WHAT THEY CAN CONTROL

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However smart we think we are in trading and investing, we are dealing with unknowns. What we know and what we can control should decide how much we risk on each trade. And determining these factors is what you should be spending more time on.

Many traders spend too much time worrying about factors they cannot control, and financial markets are full of unknowns. However, you can certainly control some factors, including the following four:

A Assess how much to risk per trade

However sure you are that the market will crash or XYZ is going to soar, make your first trade a small one. Then if you are correct, add more to that trade. Pyramiding a successful trade is the key to making large returns.

Never add to a losing trade! I have seen traders "average down" or use a martingale system, and I can honestly say that over the long run, both are a recipe for disaster.

If you start with say $2,000 in an account and risk 5% per trade (i.e. $100), you control your risk. If your balance goes down to $1,800, you now risk 5% ($90). If the balance goes up to $2,500, you risk $125. You can work on building your money management plan or adopt it from this guide or another source, but it's essential to have one.

The cases over which I see traders get into serious trouble are those that I call "Hail Mary" trades. In these situations, traders risk all or a large amount of their account balance on one trade that they pray will make money and get them out of a hole.

B Choose your counterparty carefully

Your financial trading agreement is only as sound as the party that you choose to make the contract with. Over the years, I have seen many financial institutions and banks come and go. They make special offers, create attractive bonuses, have their 5 minutes in the spotlight, and then disappear. Deriv has over 20 years of stability in its history. It is well run and regulated.

You can tell a sound counterparty by the ease that you can withdraw money. I have heard of traders who used bad brokers who disappeared or made it very hard for them to withdraw their funds.

Unlike some brokers that make it easy to deposit money yet hard to withdraw, Deriv enables you to withdraw easily and securely. Please note that whilst Deriv processes your withdrawal requests efficiently and quickly, the period it might take banks or other financial institutions to perform your withdrawals can be longer. Deriv tries to give you an estimate of the total waiting time.

C Have backup plans for internet access

Whilst I do not advocate overspending on technology, if you are going to be a professional trader, then reliable internet is a must. Also, in many countries where power supply may be unstable, make sure you have a backup way to keep access to the markets. If you're using home internet and the neighbourhood has regular blackouts, you'll lose internet access during those intervals. Having a backup such as a hotspot from your mobile phone and a laptop running on battery will keep you trading even without electricity. I can tell you it has happened plenty of times to me as I live most of the year in Mallorca, Spain, and when we have storms, the power tends to go out.

D Be careful in choosing leverage and hedging your bets

As I said before, leverage is great when the trade is going your way, but when it comes to a losing position, you might lose much more than you have invested because of leverage. So it's very important to choose leverage carefully.

You can also choose to trade non-leveraged products if you wish to lower your risk even more. Deriv digital options offer variety in trade types and markets, but they have the advantage of offering a fixed amount of risk premium known at the outset.

Another good risk mitigation method is hedging your bets. To do so, you can have a basket of trades open as mentioned before, and not just one trade.

FINAL NOTE

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I hope you found this short description of the 7 traits of successful financial traders of use and that you will refer back to it in due course.

Using Deriv services allows you to trade a great selection of markets. You will find additional resources, charts, and tools on deriv.com. You can also download my two other books, How to Trade Synthetic Indices and How to Trade the Forex Market, free of charge.

Wishing you success,
Vince Stanzione

About Deriv

Deriv offers a wide range of products to its global client base, enabling them to trade forex, stocks, stock indices, synthetic indices, cryptocurrencies, and commodities.

With over 20 years of experience, Deriv's mission is to bring online trading to everyone, everywhere via a simple, flexible, and reliable platforms tailored to fit any trading style.

Today, Deriv has 20 offices worldwide with over 1000 employees from over 50 countries working together to create an effortless online trading experience with diversified, market-leading products.