

## Lecture 33

### Misconception About Psychology in Trading

Typical trading books talk mostly about Fear and Greed. Fear of losing money and greed of wanted to make too much money. We are going to dispel this right away.

First let's look at greed. Greed is viewed as one of the downfalls of many traders. This comes out in movies, book and even thought at some schools. This cannot be any farther from reality. I have never seen a trader not be successful because he was too greedy. I have never seen a worker fail because he was too greedy. I have seen though many traders fail because of fear. The only things that interfere with a trader doing what he is supposed to do is feelings of fear. The things we fear have the greatest control over us. Greed is not an emotion that can control and manipulate us. Fear on the other hand is. Now many people mix up the situation they find themselves in when they are in a wining position and want to hold it for longer as being their greed. In fact it is not greed; it is the fear of missing out on an opportunity. We know that if we get out of the position and it continues to go our way we will feel regret and blame ourselves for getting out too early. Because we anticipate and fear having those feelings in the future we decide to stay in that position to avoid having those feelings. This is what loss aversion states as we place so much weight on how that loss of opportunity will feel.

Now let's look at fear. The common belief is that fear of losing money is the problem. Although they got the fear part right. The actual fear is not of losing money but in feeling a certain type of way. We all know what we are getting in too and we know losing money is part of the process. The fear we have is actually about having certain feelings. Traders commonly blame themselves for losses and spend so much time and energy regretting their past decisions. The feelings of blame and regret are extremely intense and traders develop fears around them. These fears are the major drivers of trading behaviors.

The only thing that controls us is fear and the only thing we fear is negative emotions.

---

---

---

---

## Way to Improve on Trading Psychology:

To improve on trading psychology you need to do two things. First you need to read as much as possible about the subject. The more you know about how your brain works the better you will be able to realize when your behavior is not logical. Through this knowledge you will also have an easier time in doing the right behavior.

Second you need to review your days. Not to review your trades but your emotions and how those emotions affected your decision making. When you see there is a particular bias that affects you often address it by noting down specific actions to take on your next trades.

Example: If after reviewing your trading day, you realize that you held on to a winning position too long because you thought it could go higher. You know that this is caused by the fear of regret that you will get if you get out of the stock and it continues higher. So you put on paper “it’s ok to take money off the table and let the stock continue without you” and read that every time you are in a winning position that you are considering selling or not. You continue doing this until it becomes natural.

---

---

---

---