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# **TRADE MINDFULLY**

Achieve Your Optimum Trading Performance with  
Mindfulness and Cutting-Edge Psychology

**Gary Dayton, Psy.D.**



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#### AUDIOBOOK SUPPLEMENT

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PART I

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# UNDERSTANDING YOUR MIND

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CHAPTER 1

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## Traders' Mental Blind Spots

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**FIGURE 1.1** Zoe's Weekly Chart Depicting an Uptrend

Source: TradeStation Technologies, Inc.



**FIGURE 1.2** Higher Time Frame Dark Cloud Cover Pattern

Source: TradeStation Technologies, Inc.



**FIGURE 1.3** Higher Time Frames Show Weakness in 10-Year U.S. Treasury Futures

Source: TradeStation Technologies, Inc.



**FIGURE 1.4** Nathan's Long Trade

Source: TradeStation Technologies, Inc.



**FIGURE 1.5** Nathan's Loss Due to Representativeness

*Source:* TradeStation Technologies, Inc.

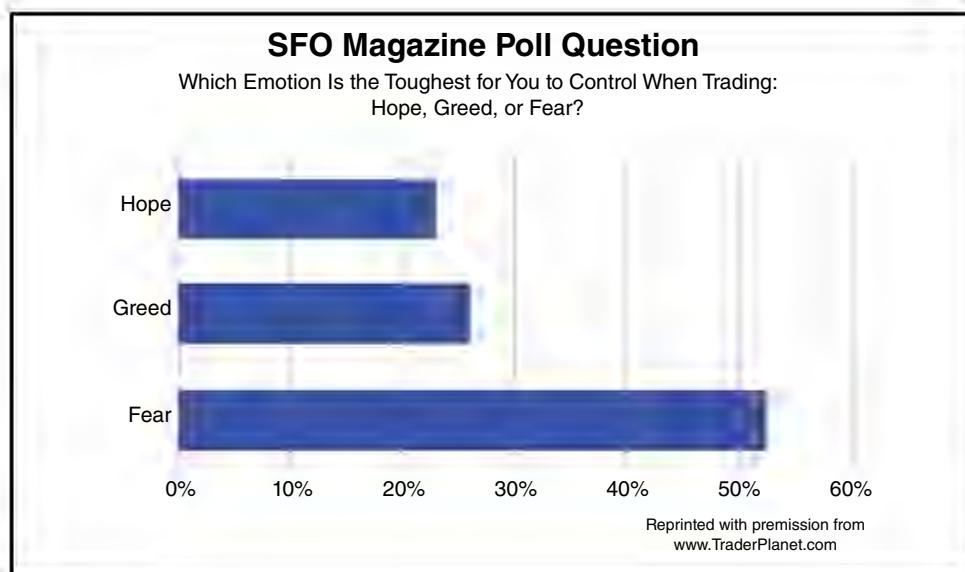
**TABLE 1.1 Common Cognitive Heuristics and Biases: Descriptions and Suggestions**

Heuristic/Bias	Description	Suggestions
Representativeness Heuristic	Assuming an event is an accurate representation of a class (e.g., assuming a chart pattern represents a true directional play). Especially common in trading.	Pay close attention to the base rate of a trade setup. Be aware of the overall market context. Engage your deliberative mind before coming to a conclusion.
Recency Effect	Disproportionate overweighting of recent trading patterns or events and expecting them to continue into the future.	Make a special effort to look beyond recent events.
Affect Heuristic	Positive feelings promoting incautious and careless trading.	Use optimistic emotions as a signal to step back and engage deliberative mind.
Confirmation Bias	Using additional similar or comparable information to validate a preconceived trading action or idea.	Actively look for contrary indications and weigh against confirming indications.
Base Rate Neglect	Tendency to ignore trade probabilities in favor of representativeness, recency, salient features, and other nonprobabilistic reasoning.	Keep good records of all trades and generate individual metrics for each setup.
Hindsight Bias	Tendency to see past events as predictable.	Qualify trades and events by an objective assessment of features and attributes. Seek to understand why a market event happened.
Endowment Effect	Tendency to overvalue what is already owned. Focusing on associated features can amplify perceived value.	Pay attention to objective assessment data. Have objective profit target.

## ■ Note

1. Shane Frederick, "Cognitive Reflection and Decision Making," *Journal of Economic Perspectives* 19 (2005): 27.

# Strong Emotions in Trading



**FIGURE 2.1** SFO Magazine Reader Poll on Emotions

Source: *Stocks, Futures and Options Magazine* 7, no. 8 (August 2008): 10.

**TABLE 2.1 Examples of Thoughts and Erratic Trading Actions Associated with Fear**

Type of Fear	Examples of Thoughts	Examples of Erratic Actions
Being Wrong	"I can't have another loss." "I can't tell my spouse/significant person I've had another loss." "I can't be wrong, here."	Cutting winning trades short. Failing to pull trigger. Moving stops away from approaching price. Crowding stops. Averaging down. Ignoring money management. Avoiding trades.
Losing Money	"I need a better indicator/trade setup to reduce losses." "I must keep my losses to (a bare minimum) X percent." "You're in profit. Don't let this turn into a loss!" "I have to make up for this morning's loss."	Continuously looking for a better trade setup/indicator/analytical technique to reduce losses (holy grail quest). Seeking high frequency win rate/low frequency loss rate. Cutting winning trades short Crowding stops or moving them away from approaching price. Taking unplanned trades and doubling down to make up for a loss. Avoiding trades. Trimming position size after a loss.
Missing Out	"The market is moving without me!" "I missed the last setup like this; I won't miss this one." "I've got to get in here, I can't miss this trade."	Jumping into unplanned trades. Entering trade too soon. Oversizing position.
Leaving Money on the Table	"I can make real money on this trade." "The last trade ran far, so I'm holding this one." "I'm on a hot streak; let's increase size and make some serious money."	Holding trades far too long. Neglecting profit target objectives. Ignoring market signs to close trade. Oversizing position.

**Exercise 2.1 Becoming Aware of Fear and Other Strong Emotions**

How You Act	What Your Mind Tells You	Emotion (if fear, note type of fear)



**FIGURE 2.2** Billy's Impulsive Trade in Ford Motor Company

Source: TradeStation Technologies, Inc.

**Exercise 2.2 Developing Emotional Intelligence: My Patterns for Strong Emotions**

Event or Situation that Triggers the Emotion	Hot Thoughts That Ignite and Amplify Strong Emotions	How You Feel	Actions You Take	Results and Consequences

# The Struggle to Control and Eliminate Emotions

**Exercise 3.1 The Price I Pay to Control My Thoughts and Feelings**

Triggering Situation	Thoughts, Emotions, and Sensations	Control Strategy Used/What You Did	Effect on Me	Price I Paid
<i>Example: I was in a profitable trade</i>	<i>"This could turn into a loss. I should close the trade." Anxiety and fear, muscle tension, sweaty palms</i>	<i>"At first, I tried to stop the anxiety, then I closed the trade."</i>	<i>I made a small profit but mostly felt relief from the tension.</i>	<i>I felt bad when the market rallied. I missed profits and thought, "I'll never get good at trading."</i>

**TABLE 3.1 How Some Other Traders Have Tried to Control Unwanted Thoughts and Feelings**

Tried to suppress thoughts and feelings	Snapped rubber band around wrist when angry	Didn't use stops	Used alcohol and drugs	Educated self on fear and greed
Read self-help books	Took medications	Tried to exert my willpower and discipline	Took an anger management course	Jumped into trades/overtraded
Cut many winning trades short	Distracted self when upset	Did relaxation and meditation exercises	Used a brain synchronization machine; holographic/subliminal message CDs	Held on to losing trades
Talked self out of anxiety and fear	Joined chat room to stay calm	Used herbal supplements and teas	Use positive affirmations to change how I think	Didn't take the trade
Overtraded my positions to make up for prior losses	Left my trading desk to try and calm down	Added to a losing position to get out at breakeven	Learned all I could about technical analysis	Tried to force myself to be tough minded

**Exercise 3.2 Short- and Long-Term Costs and Benefits of My Control Strategies**

Control Strategy	Disadvantages and Costs		Advantages and Benefits	
	Short-Term	Long-Term	Short-Term	Long-Term
<b>Example 1: Avoided pulling the trigger</b>	<i>Missed good profit; felt bad</i>	<i>Keeps me out of many good trades; not improving; feel like a loser</i>	<i>Feel less anxious</i>	<i>Not sure if there are any benefits</i>
<b>Example 2: Exit trade before it can go against me</b>	<i>Could have made 5+ points rather than 0.75 points; felt very frustrated</i>	<i>Significant lost profits; doubts about making it as a trader</i>	<i>Relieved the fear</i>	<i>Nothing comes to mind</i>

**TABLE 3.2 What Other Traders Say Are Advantages and Disadvantages of Psychological Control**

Disadvantages	Advantages
Missed substantial profit	Always cutting profits short
Missed choice trade setups	Don't trust my system; losing confidence in my self
Cancelled orders and missed good trades	Self-image is poor Feel like a failure No self-esteem
Thousands lost in profits	Failing to develop self as a trader
Loss of income	Depression
Another setback to sticking to my rules	Lack of life balance
	Absolutely none except avoiding dealing with my greed
	No long-term benefits noted
	Feel better in the short term, but long term I am not achieving what I want

## ■ Notes

1. The important concepts of trading edge and expectancy are only briefly touched upon here. For more information on these topics, the reader is referred to two useful sources: Corey Rosenbloom provides a very helpful discussion of edge and expectancy in his book, *The Complete Trading Course*. Also, Van Tharp discusses expectancy and R-multiples in his book, *Trade Your Way to Financial Freedom*.
2. Chocolate cake! Your mind has added chocolate cake to the mountains.
3. These are common idiomatic expressions in American English: Don't beat around the *bush*; A fool and his money are soon *parted*; Don't make a mountain out of a *molehill*; Look before you *leap*; Fight fire with *fire*; Where the rubber hits the *road*.

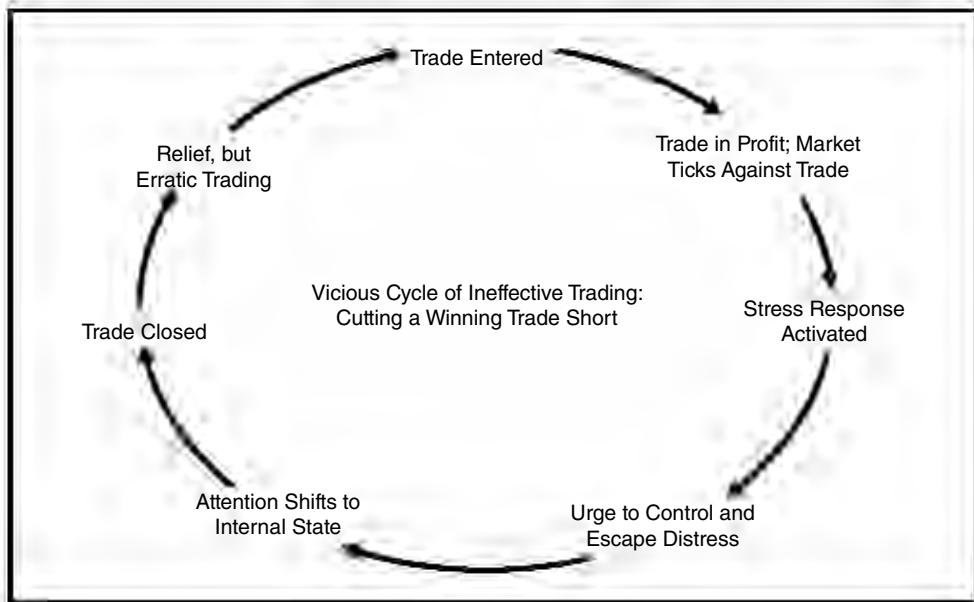
# The Necessity of Emotions in Trading

**Exercise 4.1 How My Emotions Function in My Trading**

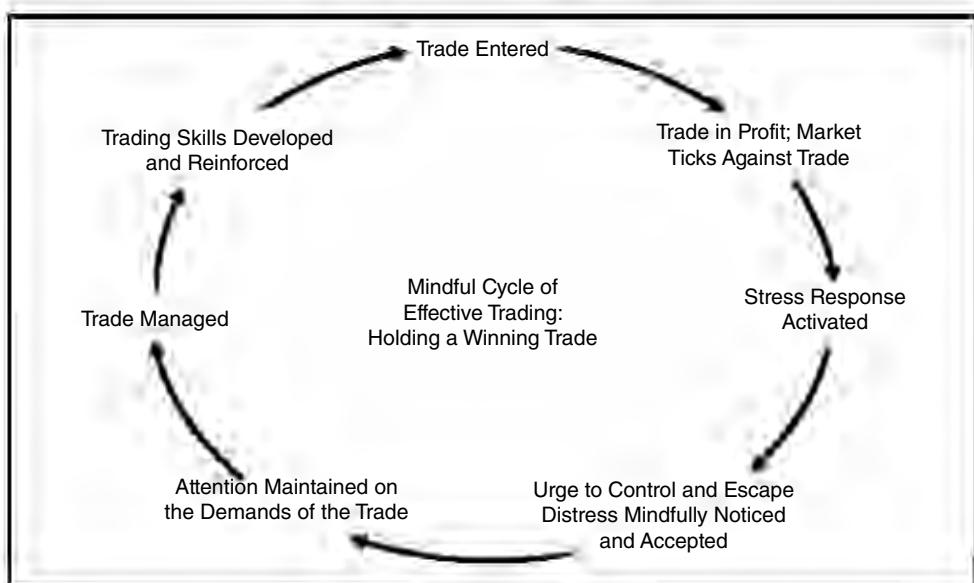
Situation	Information	Speed	Attention	Commitment
<b>Example 1:</b> <i>Price begins to rally aggressively. Should I jump aboard?</i>	<i>Feelings of excitement over potential quick profits.</i>	<i>The market is moving; I need to make a quick decision. However, I don't feel confident enough to take this trade.</i>	<i>Feelings of caution prevail. I know I am not seeing all the data. This is why I am not confident. I check my other indicators.</i>	<i>Feelings of pride. In the past, I would have jumped in, but paying attention to all my feelings kept me out of an unplanned trade.</i>
<b>Example 2:</b> <i>Developing plan for tomorrow's trading: identifying trade locations.</i>	<i>Feeling very curious about obvious selling in market today. Wondering what does this mean?</i>	<i>Feeling calm; there is no rush.</i>	<i>Continuing to feel very interested in the evidence of selling. I checked the higher time frame and was excited to find significant resistance!</i>	<i>Confident feelings that everything is coming together for a great trade tomorrow.</i>

# USING CUTTING- EDGE PSYCHOLOGY

## The Traders' Psychological Edge Lies in a Different Kind of Thinking



**FIGURE 5.1** Vicious Cycle of Ineffective Trading: Cutting a Winning Trade Short

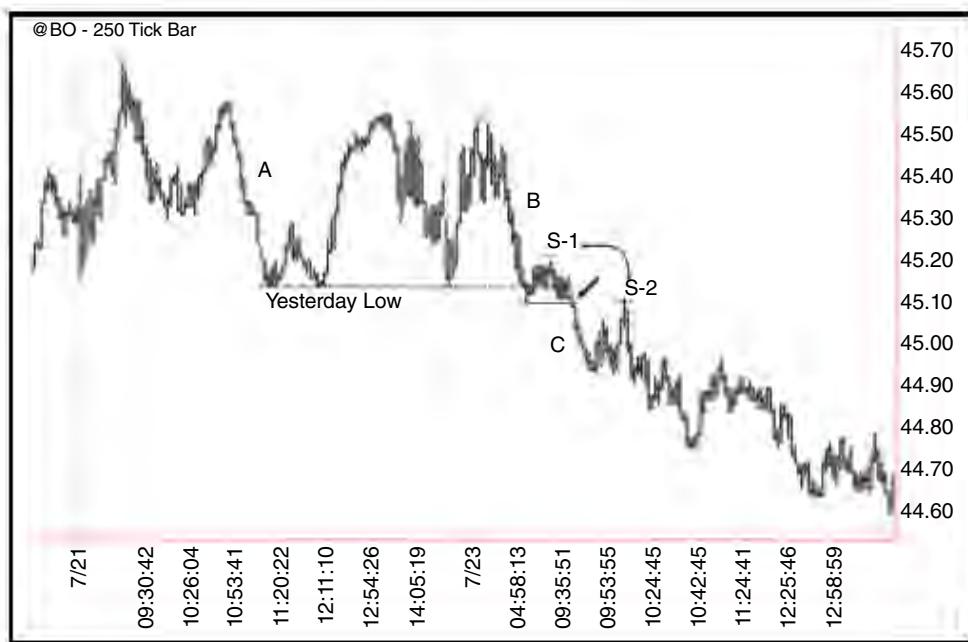


**FIGURE 5.2** Mindful Cycle of Effective Trading

## ■ Note

1. Jon Kabat-Zinn. *Wherever You Go, There You Are: Mindfulness Meditation in Everyday Life* (New York: Hyperion, 1994), 92.

# Practice Mindfulness, Trade Mindfully



**FIGURE 6.1** Mindless Moving of Stops

Source: TradeStation Technologies, Inc.

**TABLE 6.1 Example of Mindless and Mindful Choices in Trading**

Mindlessness	Comments	Mindfulness	Comments
Holding onto a market bias despite how the market is trading. Trading against market action. This includes trying to pick tops or bottoms against a prevailing trend.	Attention on how the market should be acting. Reality of market action not accepted. Belief in the mind's assertion that the market is about to turn (and market is now at a top or bottom).	Market is trading differently than anticipated from analysis. Key indications are double checked. Trend change is confirmed. Trade opportunities in the direction of the new trend sought.	Attention focused on market in nonjudgmental way. Acceptance of market's action. Focus on the present and on the appropriate trading task.
Seeing a valid trade setup and then trading much larger than normal size for unrelated reasons, for example, to make up for prior losses.	Focus is on prior losses. Trader believes mind's story that increasing size will "easily" make up losses.	A valid trade setup is identified and treated as any other trade with proper sizing in accord with money management parameters.	Focus is on trading the trading plan. Trader may think about earlier losses and sizing up, but accepts those losses along with money management constraints.
Rushing to place a trade and failing to check higher time period trend/support and resistance.	Focus on avoiding the pain of missing out. Trader buys into the mind's story that the market is about to move and there are profits to be made.	Market begins to move but instead of jumping in, analysis is rechecked, including the higher time frame levels. Analysis shows this is not a choice trade and trader stands aside.	Attention placed on market structure and whether or not this is a sound trade location. Feelings of missing out are noticed but mindfully set aside as trader focuses on high-value trading actions rather than emotions.
A live trade is in loss. Trader decides to exit the trade. Instead of closing the trade, the position is mistakenly doubled.	Attention is on the loss and trader is emotionally hijacked. Because of the misplaced attention, an order execution error is made doubling the losing position.	Need to exit a losing position, a closing trade is entered on the trading platform and double checked before executing the order.	Attention mindfully focused on the task of exiting the trade.
Placing a trade and then shortly thereafter, it is cut short.	Focus goes internal to fears of loss. This drives trading actions. Attention narrows to minute moves in price, which are judged to be a threat.	A trade is placed but market moves slightly against it. Analysis is rechecked, noted to be sound. The valid trade is held.	Attention placed on price action for a significant sign against the trade. Acceptance that market may move slightly against the position and even stop it out.
Potential profits forfeited.			

(continued)

**TABLE 6.1** (*Continued*)

Mindlessness	Comments	Mindfulness	Comments
Failing to notice subtle shifts in the supply/demand relationship as the trend matures. Trader has been sitting on the sidelines and missed the large move. A trade is placed late in the trend which fails.	Focus is on the money missed as the market trended. Trader believes the mind's story that the current pullback is the place to make up for standing aside. The pullback is the beginning of a trend change.	After a large trend, trader notices that the supply/demand relationship is changing and begins to look for a counter-trend trade against the prevailing trend.	Attention placed on market action. Acceptance that trend is now likely over.
A winning day trade is closed at the end of the day even though the market has broken from congestion and closes firm. Trader feels uncomfortable holding the trade overnight.	Focus is on discomfort of giving back profits by holding trade overnight. The mind's fear of threatening overnight price action is believed.	Trader has captured a trend day. Because the market is closing firm, trader holds the trade overnight anticipating additional price follow-through the next day.	Trader does have thoughts that the market can pull back and lose some profit, but position held. Trader recognizes that the probability of follow-through the next morning is very strong.
Although the market has reached weekly resistance, a day trade is held. Trader thinks, "This market is really strong. There is more money to be made from this trade."	Focus is on the salience of the recent move. Trader believes the mind's tale that this will continue because it looks so strong.	Trader is keenly aware of higher time frame resistance, which is the trade's objective. When the market reaches that resistance, trade is closed.	Trader notes that the move up has been strong and does have thoughts it may continue higher, but trader also knows the probabilities favor closing the trade at resistance.
A trade has gone bad. Instead of taking the loss, the stop is cancelled. Trader looks to exit on a rally to avoid a loss.	Focus is on avoiding a loss. Trader feels that a loss is unacceptable. Trader believes the mind's story that a rally will bail out the trade. Trader now locked into a bad trade with emotions erupting and all energy channeled to make break-even.	The market has proven your analysis wrong. Trade is closed at its stop for a loss. Trader turns attention toward reevaluating the market.	Trader doesn't like losses and feels the sting of this one. Nonetheless, it is accepted as a part of the probability profile for the trade setup. Because the loss is dealt with quickly, attention is free to return to the market and new trade opportunities.

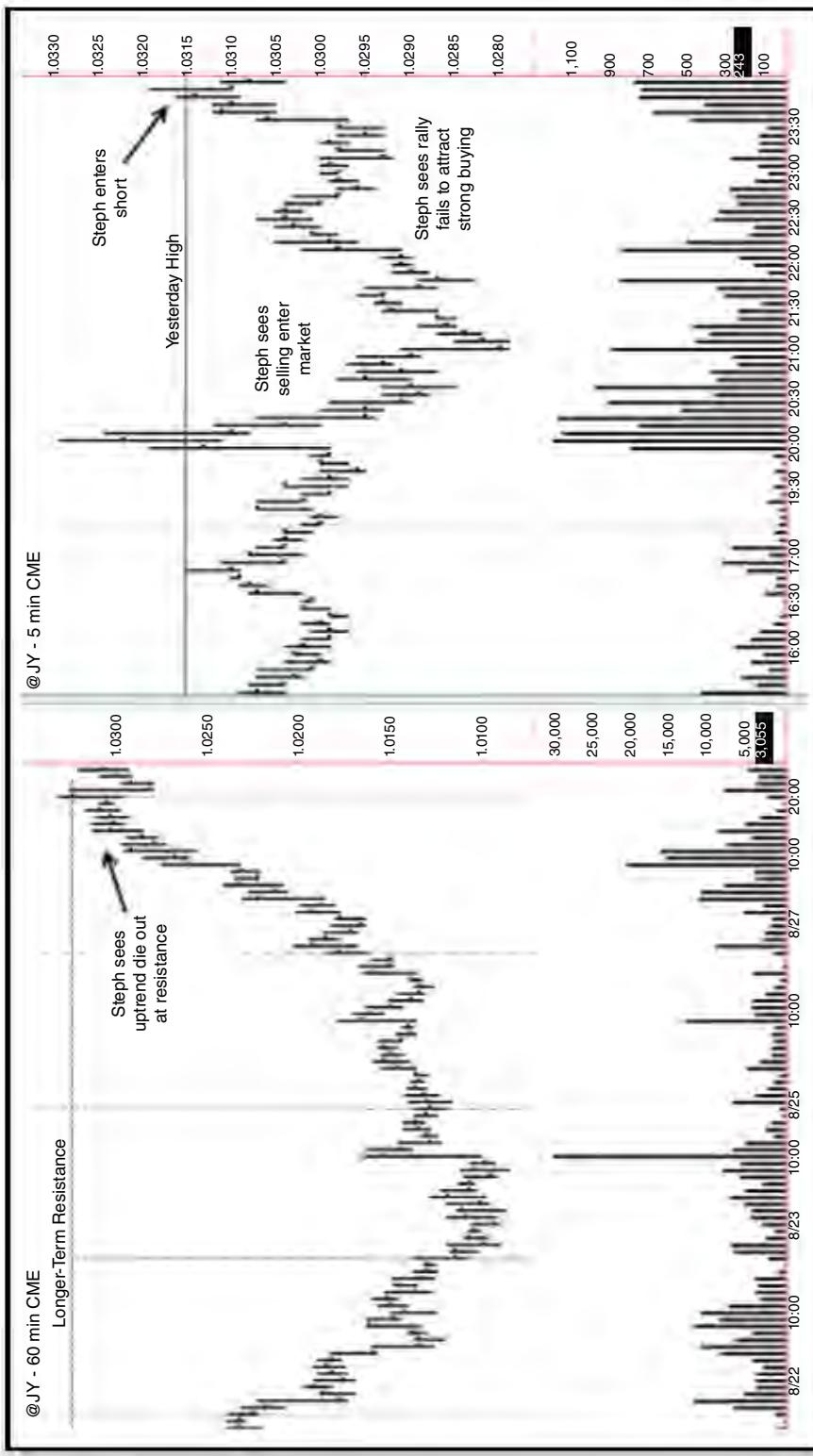
**TABLE 6.2 How Mindfulness Works and Enhances Trading Performance**

Mindfulness Process	Description	Trading Performance
Attention Regulation	Returning attention to the focal point (e.g., the breath) whenever the mind wanders enhances the mental skill of conflict monitoring.	Increased performance by maintaining attention on trading related cues; reduced distractibility from both internal and external distractors
Greater awareness of body sensations and emotions; reduced effort to control private experiences	Focused attention on body sensations and awareness of emotions enhances emotional intelligence.	Sensations and emotions seen as temporary events leading to reduced efforts to try to control them and freeing attentional resources for trading tasks
Greater emotional regulation	Nonjudgmental openness to emotions promotes new ways of understanding and responding to emotions. Old, emotionally charged memories become altered.	Experience of emotion changes leading to more flexible trader actions related to market cues and trading tasks rather than actions designed to escape or control the trader's internal state
Perspective Change	Enhanced identification with an observing self that is more than the sum of its experiences.	Metacognitive awareness leads to less rule-governed behavior and promotes sensitivity to trading cues and more flexible response to trading demands

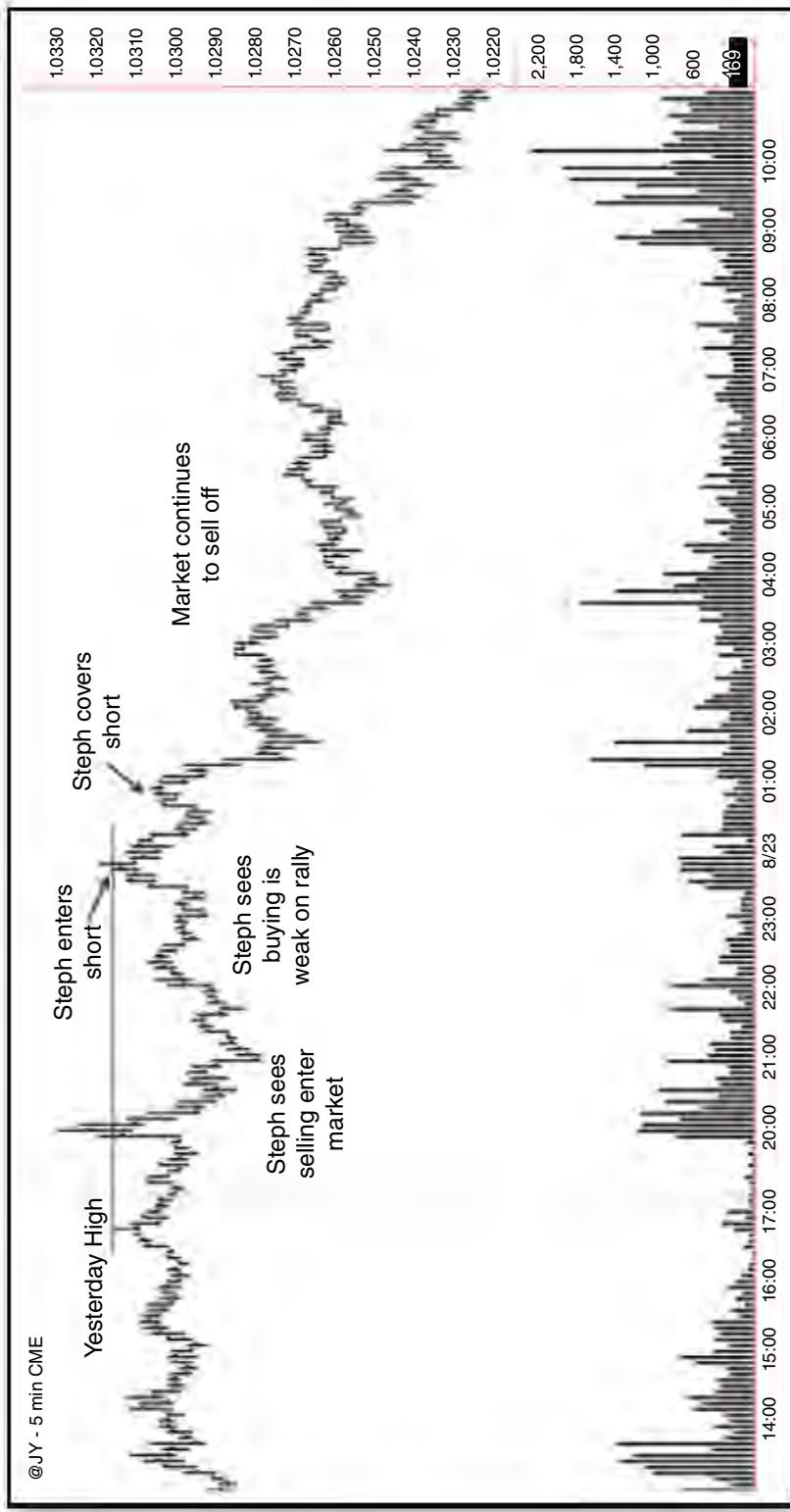
## ■ Notes

1. Susan M. Pollack, "Teaching Mindfulness in Therapy," in *Mindfulness and Psychotherapy*, ed. Christopher K. Germer et al. (New York: Guilford Press, 2013), 140.
2. John P. Forsyth and Georg H. Eifert, *The Mindfulness and Acceptance Workbook for Anxiety: A Guide to Breaking Free from Anxiety, Phobias and Worry Using Acceptance and Commitment Therapy* (Oakland, CA: New Harbinger, 2007), 242.
3. Russ Harris, *ACT made Simple: An Easy-to-Read Primer on Acceptance and Commitment Therapy* (Oakland, CA: New Harbinger, 2009), 177–180.
4. Georg H. Eifert and John P. Forsyth, *Acceptance and Commitment Therapy for Anxiety Disorders: A Practitioner's Guide to Using Mindfulness, Acceptance and Values-Based Behavior Change Strategies* (Oakland, CA: New Harbinger, 2005), 138–139.

# Defusion: An Advanced Mindfulness Skill



**FIGURE 7.1** Steph's Trade Entry  
Source: TradeStation Technologies, Inc.



**FIGURE 7.2** Steph Covers Her Short and the Market Falls  
Source: TradeStation Technologies, Inc.

### Exercise 7.1 Tracking My Thoughts and Feelings

Use this form to track your feelings and thoughts over the course of a week or two. We want to begin to develop better awareness of our thoughts and feelings, and especially how they show up and change. Three times a day, simply note your mood, sensations, any prevalent thoughts, anything specific that might have stimulated your feelings and your thoughts, and whether you chose to have these thoughts or if they just showed up on their own.

Time	What I Was Feeling/ Mood	Body Sensations I Noticed	What My Mind Was Telling Me	Situation/ Event	Did I Choose to Have These Thoughts and Feelings or Did They Just Show Up?
<b>Sample:</b> 8:00 A.M.	<i>Upbeat and excited. I was also feeling confident.</i>	<i>Warmth; tingling in arms and hands</i>	<i>"Today is going to be a good day. I can't wait to trade"</i>	<i>Pre-open reviewing my game plan for the day.</i>	<i>Even though these were positive, they showed up on their own. In truth, I didn't choose them.</i>
3:00 P.M.	<i>Tired and bored.</i>	<i>Shoulders tense. Body felt heavy.</i>	<i>"Markets are dull." I noticed my mind encouraged me to surf the 'net and call friends.</i>	<i>Narrow trading range. Nothing happening in the markets.</i>	<i>Arose on own. I believe they were stimulated by the dullness of the market. I certainly didn't want to feel bored.</i>
7:30 P.M.	<i>Feeling positive and energized.</i>	<i>Body felt light. Ready to get going.</i>	<i>"A breakout tomorrow will lead to a big move. I can make good money tomorrow."</i>	<i>Reviewing markets and making game plan for tomorrow.</i>	<i>Again, they show up on their own. Funny how I'm not really in control of what I think or feel!</i>

## ■ Note

1. Steven C. Hayes, Kirk D. Strosahl, and Kelly G. Wilson, *Acceptance and Commitment Therapy: An Experiential Approach to Behavior Change* (New York: Guilford Press, 1999), 101–104.

## CHAPTER 8

# Acceptance and Committed Trading

### Exercise 8.1 Minor Decisions That Impact My Trading

Situation	Feelings	Thoughts	Consequences	✓
<b>Example 1:</b> <i>Sleeping later than normal</i>	<i>Felt tired</i>	<i>"I can sleep a little longer; it won't really matter."</i>	<i>Couldn't revise game plan to incorporate overnight data. Missed a great trade. Felt rushed all morning.</i>	
<b>Example 2:</b> <i>Skipped simulation/practice trading. Watched TV instead.</i>	<i>Lethargic, bored</i>	<i>"Paper trading without real money on the line isn't real trading. I can skip this."</i>	<i>Nothing immediately, but long term, I'm not doing my best to develop my skills.</i>	

**TABLE 8.1 Relationships between Mindful Acceptance, Attention, Actions, and Consequences**

Mindful Acceptance	Unwanted Thoughts and Feelings	Attention	Actions	Consequences
Yes	Defuse and accept them, realize they are just temporary, make room for them	Remains on the task or the trade	Done in the service of your trading or trade	Long-term goals more likely to be achieved
No	Don't accept them, remain fused and believe they are intolerable and/or enduring, seek to get rid of them	Shifts from task or trade to internal state; trader distracted	Done to reduce or eliminate discomfort	Long-term goals will not be achieved

#### **Exercise 8.2 Finding My Trading Values**

**Part 1:** If nothing could hold you back from being the trader you really want to be, what would that look like? How do you really want to be and act as a trader?

**Part 2:** After a decade of living and trading as you describe in Part 1, write about what sort of trader you have been. Imagine you are a reporter writing an article on yourself. Describe 3 or 4 of your greatest qualities?

Quality #1:

Quality #2:

Quality #3:

Quality #4:

#### **Exercise 8.3 Challenging Trading Situations, My Internal State, and Values**

Challenging Situation	Thoughts	Feelings	Body Sensations	Relevant Value

**Exercise 8.4 Overcoming My Challenging Trading Situation**

What I stand for in my trading:	
My challenging situation:	
My Goals: My initial goal:	
My longer-term goal:	
Plan for my initial goal:	
What will present the greatest challenge for me:	
How I will meet that challenge:	

**TABLE 8.2 Ammar's Challenging Trading Situation**

What I stand for in my trading:	Steadiness
My challenging situation:	Increasing position size after a loss
My Goals: My initial goal:	To notice when I am vulnerable to oversizing my position and to reduce this behavior by 70 percent over the next two weeks of trading
My longer-term goal:	Eliminate placing outsized positions completely within 45 days
Plan for my initial goal:	(1) Immediately after a losing trade leave my trading desk and engage in a 10-minute abbreviated acceptance exercise. (2) Affirm my commitment to being a steady trader and state to myself that increasing position size runs against how I want to trade. (3) Before taking the next trade, reconfirm my commitment to be a steady trader and trade with appropriate size.
What will present the greatest challenge for me:	The tension and agitation I feel for having a loss along with the thoughts and emotions that I failed.
How I will meet that challenge:	Rather than try and fight them, I will notice the tension in my body and also acknowledge the thoughts of failure and the emotional unease that these bring. I will apply mindfulness and recognize that these are only thoughts and feelings that will soon leave me. Taking a few deep breaths, I will make room for my unwanted thoughts and feelings, remind myself that steadiness is more important than making up for losses with unsound trades, and place my attention on the next trade, properly setting my position size.

**TABLE 8.3 Priyanka's Challenging Trading Situation**

<b>What I stand for in my trading:</b>	Persistence and giving maximum effort
<b>My challenging situation:</b>	Cutting winning traders short
<b>My Goals: My initial goal:</b>	To reduce this unconstructive behavior by holding onto trades for at least two additional points above my average on at least 60 percent of my trades over the next two months of trading
<b>My longer-term goal:</b>	Eliminate cutting winners short completely within five months and gradually increase my winning points per trade average
<b>Plan for my initial goal:</b>	Practice mindfulness prior to trading. State my intention, mission, and commitment for today are to hold my trades for at least two additional points. After entering a trade, set my stop. Move it up to breakeven when appropriate. Exit only after I have achieved two points above my average or the trade gets stopped out.
<b>What will present the greatest challenge for me:</b>	My fears that I will give back profit earned or suffer a loss. Tension in my stomach, strong emotion, and negative thoughts.
<b>How I will meet that challenge:</b>	I will do my best to be mindful and not feed the tiger. This will be hard, but not feeding the tiger means I am being persistent and applying maximum effort, and I will feel good about this. I will remind myself that the stress I feel is helping me meet the challenge of interacting with the market and even though it feels bad, it's worse when the market continues to go in my direction and I've cut the trade. I will strive to see my thoughts and feelings as temporary and only an indication of my fears, not what is actually happening in the market. I will also strive to put more attention on the market and my trade and less on my thoughts and feelings, though I will also let them occur without fighting them or running from them by closing my trade until I reached my goal.

---

### **Exercise 8.5 Monitoring My Progress in Overcoming a Challenging Trading Situation**

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**Challenging Situation:** Cutting profitable trades short

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**Actual Event:** Stock trade on Monday

**What I did well:** I did my mindfulness routine and intention, as planned. I took the trade and set the stop.

**Where I fell short:** Moved stop too quickly and was stopped out.

**What caused me to fall short:** I wanted to start the week with a cushion of profit. I didn't realize at the time that this was just another excuse to cut a profitable trade. Starting the week profitable seemed reasonable at the time.

**What I can do next time:** Be more mindful of my thoughts. When this occurs again, I will remind myself that this is just a thought unrelated to the trade and remember that following this process is more important than the results of any individual trade.

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**Actual Event:**

**What I did well:**

**Where I fell short:**

**What caused me to fall short:**

**What I can do next time:**

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**Actual Event:**

**What I did well:**

**Where I fell short:**

**What caused me to fall short:**

**What I can do next time:**

---

**Actual Event:**

**What I did well:**

**Where I fell short:**

**What caused me to fall short:**

**What I can do next time:**

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**Actual Event:**

**What I did well:**

**Where I fell short:**

**What caused me to fall short:**

**What I can do next time:**

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## ■ Notes

1. Fear of public speaking is very common in the U.S. population. In fact, it is reported as the most common social fear over the lifetime, according to national survey research conducted by University of Pennsylvania psychologist Ayelet Meron Ruscio and her colleagues.
2. Public speaking anxiety is a form of social phobia (often referred to as social anxiety disorder). Individuals afflicted by social phobia would be fearful of most social situations that involve people they are unfamiliar with and can experience acute anxiety when in the company of others. People who experience public speaking anxiety would generally not be fearful in other social situations (e.g., going to a party, playing a team sport, meeting a friend for dinner, attending a lecture or a concert, and other common activities that involve other people) but would experience clinically significant anxiety when speaking in front of others. The majority of persons with social anxiety disorder would also be fearful of public speaking.
3. Kelly G. Wilson and Amy R. Murrell, “Values Work in Acceptance and Commitment Therapy: Setting a Course for Behavioral Treatment.” In *Mindfulness and Acceptance: Expanding the Behavioral Tradition*, ed. Steven C. Hayes et al. (New York: Guilford Press, 2004), 139.
4. Georg H. Eifert and John P. Forsyth, *Acceptance and Commitment Therapy for Anxiety Disorders: A Practitioner’s Guide to Using Mindfulness, Acceptance and Values-Based Behavior Change Strategies* (Oakland, CA: New Harbinger, 2005), 161–166.

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## PART III

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# MAXIMIZING YOUR TRADING PERFORMANCE

# The Trading Psychology Process: High-Quality Preparation

**TABLE 9.1 | High-Value Mental Skills of the Performance Psychology Time Frames**

	Before	During	After
Psychological Time Frame	High-Quality Preparation	Effective Execution	Constructive Self-Assessment
High-Value Mental Domain	Perspective	Self-Confidence	Self-Esteem
	Personal Awareness	Emotional Intensity	Performance Accountability
	Self-Motivation	Focus	Perseverance
	Mental Discipline	Poise	Continuous Improvement

**Exercise 9.1 Important Roles in My Life**

Role	What's Important to Me	High-Value Actions
<b>Example 1: Father</b>	<i>Being a good role model and creating a loving family environment for my daughter and son</i>	<i>Actively showing interest in their lives (e.g., attending school plays and sporting events they are in); be a good listener and provide appropriate guidance</i>
<b>Example 2: Friend</b>	<i>Connecting with others in a meaningful way; have a strong social network</i>	<i>Be available for friends when needed; pitch in and help organize and participate in social activities</i>

**Exercise 9.2 My Current Strengths and Limitations**

Use an asterisk to denote whether the limitation is something you can easily avoid or if it is a developmental need.

	Current Strengths	Current Limitations
Mental		
Technical		
Other Considerations		

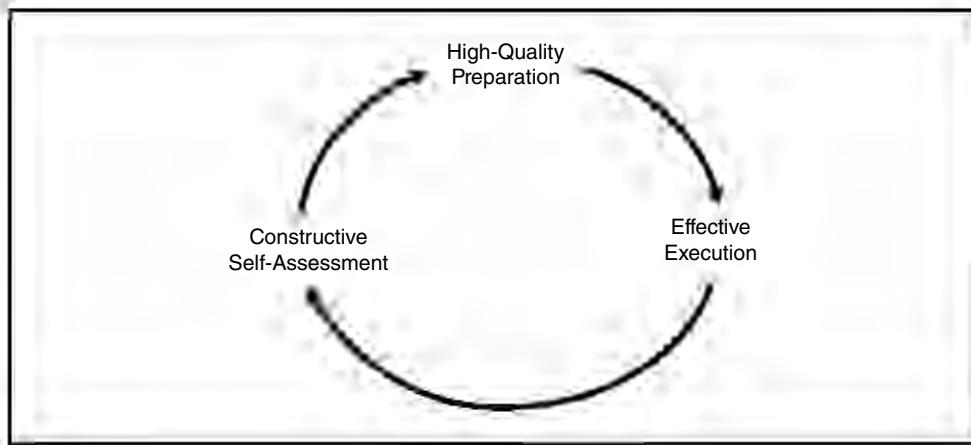
**TABLE 9.2 High-Value Mental Skills and Some High-Value Actions of High-Quality Preparation**

Before: High-Quality Preparation	
High-Value Mental Skill	Examples of High-Value Actions
Perspective	Write a trading plan
Personal Awareness	Role clarification
Self-Motivation	Practice/simulation trading
Mental Discipline	Research Study market behavior Identify developmental needs Create and work on developmental goals Develop a game plan before the trading day or week Mentally park distractions Daily mission Maintain a daily practice of mindfulness Locate areas where potential trades may occur in advance Commit to and maintain high effort in following the <i>Before-During-After</i> trading process

**Exercise 9.3 Mental Skills Inventory: High-Quality Preparation**

Mental Domain		Rating
Perspective	<p>I maintain a balanced perspective between trading and the other important roles in my life.</p> <p>I am able to mentally park non-trading-related concerns while I am trading.</p> <p>I have a strong understanding of how I trade the markets which is reflected in my written trading plan.</p> <p>I understand and act in concert with the laws of probability in trading, especially the idea that my trading edge will play out over a large number of trades.</p>	
Personal Awareness	I am clear on my strong points and my limitations in the mental, technical, money management, and other important areas of my trading.	
Self-Motivation	<p>I set and achieve goals with respect to my performance and development as a trader.</p> <p>For my current limitations, I have developmental goals framed as SMART goals.</p> <p>I focus on my trading process more than my trading results.</p>	
Mental Discipline	<p>I follow my trading plan, understand how my willpower can be strengthened and depleted, and take steps to preserve and increase my mental discipline.</p> <p>I create a game plan for my trading.</p>	

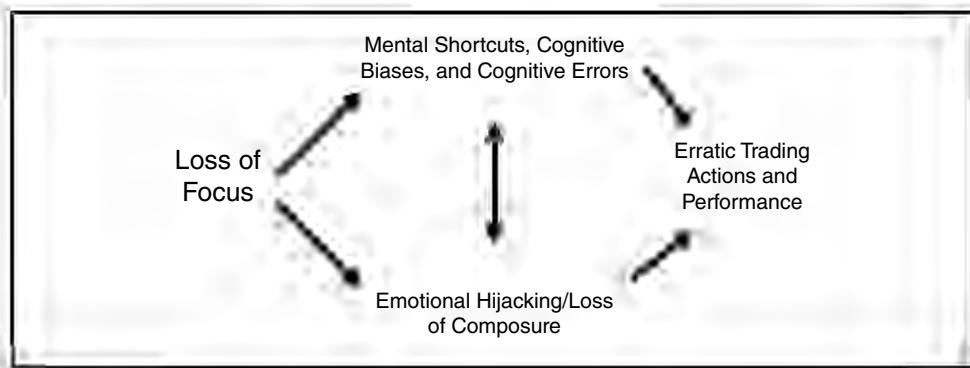
# The Trading Psychology Process: Effective Execution



**FIGURE 10.1** The Trading Psychology Process

### Exercise 10.1 Factors That Affect My Focus

My Personal Examples				
Factors	Example 1	Example 2	Example 3	Example 4
Market and performance situations	<i>Dull, narrow range days. It is hard to sit and do nothing. I check e-mail or surf the web and wind up missing trades. Often, I look at markets I don't trade to see if one is moving. I am anxious to get in. I usually don't trade that well.</i>			
Location of my thoughts in past or future	<i>I am looking for the big win. I see trades running much farther than they usually do. I can almost see it in my mind, so it seems real, but it's a future projection, not reality.</i>			
People, places, and things	<i>In chat rooms I want to show others that I'm a good trader. This can keep me from closing a trade when I should. I don't want to have a losing trade in front of my friends.</i>			



**FIGURE 10.2** Focus, Cognitive Bias, Composure, and Trading Performance

**TABLE 10.1 High-Value Mental Skills and Some High-Value Actions of Effective Execution**

<i>During: Effective Execution</i>	
High-Value Mental Skills	Examples of High-Value Actions
Self-Confidence	Identification and selection of choice trade setups
Emotional Intensity	Sound trade entry, protection, management, and exit techniques
Focus	Observing other traders
Poise	Rehearsal Mental parking Mindfulness and defusion Being clear on current trading task Daily mission Mindful S.T.O.P. Mind in the Moment tactic Use checklists and routines to center yourself Breathing-Anxious-Mind routine

**Exercise 10.2 Mental Skills Inventory—Effective Execution**

Mental Domain		Rating
Self-Confidence	I believe in and trust my abilities in interacting effectively with the markets, especially executing, managing, and exiting my trades. I am clear about the things that I can control. I focus on these and not on things that are not within my control.	
Emotional Intensity	I trade with an effective level of energy and emotional intensity. I monitor my energy and emotional intensity while trading and make adjustments as needed.	
Focus	I maintain effective focus on the trading task at hand. I know the factors that can be distracting and use mindfulness routines when I am vulnerable to distractions. I focus on process rather than results.	
Poise	I remain poised while trading, even in challenging situations. I can recognize when I am vulnerable to losing composure and take the necessary steps before losing it.	

**■ Notes**

1. Charlie Maher, *Sport Psychology Resource Guide: Building Performers through Programs, Services, and Systems* (Unpublished manuscript, 2003).
2. Russ Harris, “The Art of a Mindful S.T.O.P.,” HappinessTrap Newsletter, October, 2013, accessed July 8, 2014, [http://contextualscience.org/post/the\\_art\\_of\\_a\\_mindful\\_stop](http://contextualscience.org/post/the_art_of_a_mindful_stop).
3. Charlie Maher, *Sport Psychology Resource Guide: Building Performers through Programs, Services, and Systems* (Unpublished manuscript, 2003).

# The Trading Psychology Process: Constructive Self-Assessment

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## **Exercise 11.1 Trader's Performance Assessment**

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1. What were my trading strong points? Why were these strengths?

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2. What were my trading limitations? Why were they limitations?

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3. What have I learned about myself and my trading?

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4. What steps can I take based on what I have learned?

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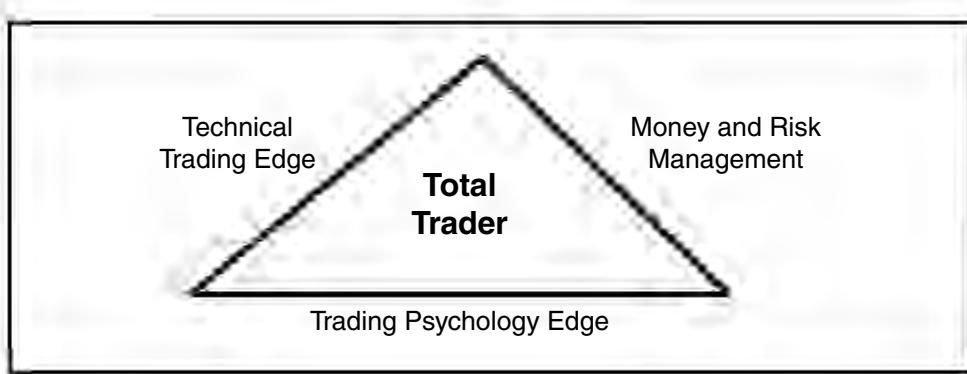
**TABLE 11.1 High-Value Mental Skills and Some High-Value Actions of Constructive Self-Assessment**

After: Constructive Self-Assessment	
High-Value Mental Skills	Examples of High-Value Actions
Self-Esteem	Defining roles and values outside of trading
Performance Accountability	Maintaining a trading journal
Perseverance	Regular review of charts
Continuous Improvement	Seek feedback and advice from experienced traders Concentrate on one trading method Regular use of Trader's Performance Assessment Seek feedback from mentors and trading psychologists Engage in deliberate practice Create developmental plans to address developmental needs Keep good records

**Exercise 11.2 Mental Skills Inventory: Constructive Self-Assessment**

Mental Domain		Rating
Self-Esteem	I know my self-worth and am able to keep myself on an even keel no matter how my trading goes.  I neither get excited when I have a strong trading performance nor get down on myself when my trading performance is less than I would like.	
Performance Accountability	I take full responsibility for my trading performance and am willing to confront the factors that affect my performance, including my performance shortcomings.	
Perseverance	I do the work necessary without distraction and strive to be the best trader I can.  I maintain my intensity of effort even when things aren't going my way.	
Continuous Improvement	I use the information about my trading performance to improve as a trader, making adjustments in my trading.  I constantly seek ways to develop and improve my trading knowledge, skills, and abilities.	

# Final Thoughts



**FIGURE 12.1** Fundamental Abilities of the Competent Trader

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