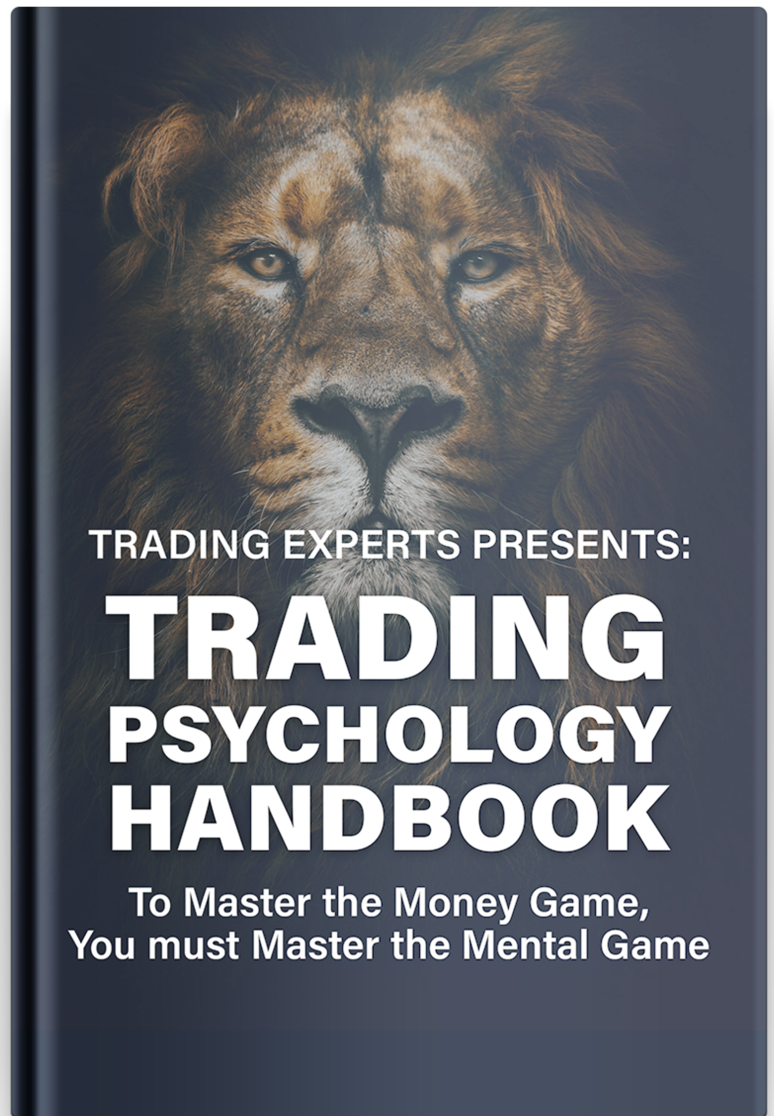

TRADING EXPERTS PRESENTS:
TRADING
PSYCHOLOGY
HANDBOOK
To Master the Money Game,
You must Master the Mental Game

Trading Experts Presents the:

Trading Psychology Program

Some of the greatest technicians we know just couldn't cut it trading. They had all the best charts, the best game plans, but for some reason they could never put it all together and they couldn't figure out why. We knew why, these guys were manic when managing trades. Every uptick they wanted to take profit and every downtick they panicked.

They had the right skills when it came to navigating charts and setups, but lacked skills in the mental department, which is far more important than reading any chart. The psychological aspects of trading will make or break you. For this reason, we instill game plans into our traders from day 1.

Creating a *game plan* aims to take the emotional aspects out of trading, but there's a lot more that goes on than just the entry price, stop & target. There is no doubt you will experience unfathomable gyrations in the trading world, and we're here to help you manage that roller coaster with a clear mind.

Navigating this crazy market is no easy task. For this reason we create a set of rules of which we follow religiously.

Without further ado, let's get into the Trading Psychology Handbook.

From Shake and Ben G

Table of Contents

A to B
Capital
Twitter My IPO Cherry
Fundamental Truths of Trading
High Five Sell Signal
Trump'd
The Edge
Time Frames
Trading Stress Away
Fomo No Mo
Perspective
Bubble Talk
Information
Random Rewards
Sugar High
Sleeping with Sara
The Shake Out
A Belmont Fiasco
Listen to Legends
Pro's vs Pretenders

A to B

When it comes to trading, knowing where you have been while learning can be just as important as knowing where you are now and are headed towards in the future. Most people (who underperform in the market) are unaware of where they have been, where they are now or where they would like to be when it comes to their money and investments. These people could be anywhere along their journey, yet they don't know if they're ahead of schedule, behind, off course or going backwards (which most are). Without having a target that you are aiming for (your point B) you too may drift off course from time to time. So let’s avoid doing that, shall we?

This is why it’s important to take stock of where you are financially and where you would like to head. If you have a $10,000 account how can you get to point B ($20,000) in a year. If you locked in $20,000 in profits this year, how can you get to $50,000 next year. If you are saving $300 a week, how could you get to the point of saving $3,000 a week?

Without these extremely specific point B’s that you are aiming for, when you do run into difficulty, the frustration and wanting to give up tends to creep in.

We have seen good traders who lack the skills to set goals to aim for their Point B wander in circles, become anxious, unhappy and hard to be around. We see this in all walks of life, as you have most likely seen as well. Think of something outside of investing where your relative peak intelligence is higher than most, something that you truly excel at. You know the peers we are talking about, they have sucked for years while you have improved. Take a few moments to break down the difference between your actions and their lack of action. Say you enjoy running a marathon once a year, you have your goal, you know what needs to be done each week to prepare you for the big race. Then you have your buddy who each year, makes up excuse after excuse.

We see this in trading all the time and the reason why we mentioned the example above is that you may have been that person, or tried to help that person, but since you and your friend are close, they undervalue your expertise on the topic you excel at.

There is one such trader I've known for years who repeats the same cycle, he gets super into trading, does all the work, all the charting and will go on a hot streak. Follows his rules, executes and locks in profits, but he never has a Point B set in his mind of where he wants to go. Then once the first bit of adversity rolls up, he goes on tilt and every trade is the next big one until he blows up. Rinse and repeat I have watched this (non TE) trader never be able to get over a $25,000 account. He's running so fast in place that he can't seem to realize these simple mistakes.

We have seen examples like that above more than we could count, with mistakes that have cost traders millions, not to mention all those years wasted. When all they had to do was sit down for a few minutes and write out where they were heading.

On the flip side inside the Alpha Chat we have witnessed traders go from $1k to $100k accounts in a few years by consistently setting goals that they are aiming for. Those $100 days turn into $250 that turn into $1,000 and so forth. Then after a year of working towards a Comma Day, those comma days quickly become standard, then the new Point B's are set higher and higher.

Most are unaware but when it comes to most things in life that we strive for, it's working towards getting to Point B that's the most fun, once there, you realize it's not all that and you press on to find the next challenge. The next bigger Point B.

The traders who say what they mean and want usually find out how to make those goals turn into realities. When they know where they are headed, they pay attention to the green lights pressing it when they are trading in the zone then start applying the brakes when they see the light turn yellow after realizing an error has been made.

During these times they are articulating what they did well and what they did poorly (Good/Bad Trade) and strive to correct them.

This is how you find success in your trading and these are the simple methods that can help protect you when times are not sunny and warm. A successful trader is ready and willing to confront the complexities of the market, take aim at their Point B by specifying their destination and charting the course to arrive at the destination. Admit to yourself out loud what you want and tell those around you what you are aiming for, then set your sights and deadline and start moving towards your next point!

Trading Psychology Task

We created a simple way to track your trading goals and your overall net worth from our experience advising high networth individuals over the years at one of the largest investment banks in the world.

You might not have a financial advisor at the moment but one is available to you as a member of Trading Experts.

Email Ben@TradingExperts.org with the subject "Monthly Goal Setting" and he will share with you a document that will help you track your goals and increase your net worth!

If you ask for this, you are required to update your monthly goal setting folder at the end of each month.

Capital

Capital. It’s what makes every market across the world move. It’s why traders trade, financial gain. But, when speaking on capital, most only think of physical capital. Dollars and cents. Well I’m here to tell you that **Physical Capital** is nowhere near as important as **Mental Capital**.

Physical Capital denotes your account whereby you can always put a specific number on it. Mental Capital, on the other hand, denotes your emotional state, your ‘brain power’ if you will. When traders fall into bad habits such as over trading, trading beyond their normal risk limitations & changing their gameplan, the problem usually lies within their mental capital.

Let’s start with the basics. The market owes you nothing. Did you catch that? Nothing. They want to take your money. The big funds, the professional traders, the high frequency traders, they’re all trying to take your money. The sooner you can accept that, the better off you’ll be. You have to accept that the market is a zero sum game. When one person is buying,another is selling. When one person is making money, another is losing.

The typical trader wants the market to fulfill his expectations, his hopes and dreams. We live in a world of social constructs where people acting reasonably is accepted, but this cannot be said of financial markets. The market has no responsibility to give us anything or benefit us in any way.

Taking losses is painful. The threat of pain generates fear and fear is the source of most of our trading mistakes. To succeed in the trading world, you need a clear head to make educated decisions.

The best traders in the world are absolute robots every single day. They’re not fist pumping after wins and they’re not breaking keyboards after losses. These people could have doubled their account or lost their shirt and you would never be able to tell by their demeanor. They are completely detached from the money and the trade, they’re just following their gameplan and reacting accordingly. They are consistent from one trade to the next, completely eliminating emotion from the equation.

That is the ultimate goal in trading. Complete and utter detachment.

Trading Psychology Task

The questions in this handbook will work a bit differently than the previous. Since the psychology of trading will affect everybody differently, these answers are for your own personal experiences.

1. **If you can recall having an unsuccessful trading day where it had severe wear and tear on your mental capital let's hear about it.**

   POST IN TRADING PSYCHOLOGY CHAT

2. **Has there been a time when your Mental Capital balance was too low that you didn't take a trade step up you would have normally taken?**

   POST IN TRADING PSYCHOLOGY CHAT

3. **What are some bad habits you noticed yourself falling into such as over trading, position sizing, or changing your game plan that could have been due to a drainage of Mental Capital?**

   POST IN TRADING PSYCHOLOGY CHAT

You are already 5% towards reaching your goal of finishing these lessons, keep it up! If you are proud of this, say “I’m at the 5% mark!” in the Trading Psychology Group Chat!

Twitter My IPO Cherry

Whenever popular companies decide to go public, the media coverage on them is over the top. When Twitter was debuting in late 2013, they were calling it the hottest IPO since Facebook. While today Facebook is the leader of the social media space and it's stock has been on an absolute tear in recent years, the 2012 IPO was an utter disaster.

Facebook's share price was originally set conservatively at $28-35/share. Three days before it debuted, the underwriting banks increased the IPO float by 25% and increased the range to $35-38 citing heavy demand. This change was despite consensus among large investors that FB was "overpriced and over-hyped”. The IPO then flopped, and retail investors who weren’t on the inside got killed. FB actually faced many lawsuits following the offering, citing the underwriters didn't report revenue cuts on their S-1 among other details.

But I digress, on to Twitter. Many believed underwriters would learn from Facebook and make it more appealing for retail investors. Twitter was a nationwide phenomenon at this point and we were just starting to see things like hashtags at the bottom of our favorite TV shows. It priced at $32 and was way oversubscribed (in the real sense, not in the Facebook sense). People were expecting a BIG pop day 1.

While being involved in the financial markets for over a decade, I started trading professionally at a firm in lower Manhattan in late 2013. I was on a demo trading account for a month in October, and finally started live trading November 4, 2013. I was like a kid in a candy store just soaking up all the knowledge I could, it had always been my dream to be a successful trader. This was my first experience on a trading desk and it was just as wild as anticipated.

We had our morning meeting everyday at 8:45 where the head trader, Jack, commanded the room. Jack was equipped with his slicked back hair and mini wooden baseball bat that he'd slam against his open palm while addressing the room and wave it around like a pointing stick shouting at all the young traders. He was the intimidator, the enforcer. He wanted to get the weak hands out; the newbies that couldn't handle the ups and downs of trading. It was his job to make you feel like a piece of trash, and he was good at his job.

The Twitter IPO was the Thursday of my first week of trading. I knew nothing about day trading, I couldn't be any lower on the totem pole at this point. What I lacked in knowledge I made up for in hunger and enthusiasm. I wanted the big dogs to know that I was here to stay and I was going to make my way to the top.

The morning meeting that Thursday seemed to be straight out of a movie. Everyone was talking about the different possible scenarios, how much size they were going to buy, how much money they were going to make, etc. Jack took center stage. The vibe of the room was eerie, it felt like the minutes before my championship football game in high school.

"If you can't motivate yourself on a day like today, I don't know what to tell you", Jack started *"IF YOU CAN'T MOTIVATE YOURSELF FOR THE BIGGEST IPO OF THE YEAR, THEN WHY ARE YOU HERE!? We are here to put ourselves in a position of opportunity. You will never have another day like today. There will never be another Twitter IPO. When you talk to your friends, family, etc later on today, what will you tell them? Are you going to say you manned up? Made some real money? Acted like a big swinging dick? Or are you gonna be a pussy and make excuses. It's too fast, I'm scared, I don't want to lose money. I don't want to hear it".*

At this point, everyone in the room looks like they're ready to put their head through a wall. People were actually sweating in anticipation and eagerness. *"YOU!"* I pick my head up and see the bat pointing square at me from across the room *"WHY ARE YOU HERE?"*

"To make money", I answered equivocally.
"And what the fuck are you gonna do today?" Jack continued.
"Put myself in a position to make money."
"Yeah we'll fucking see about that." He replies in disgust.

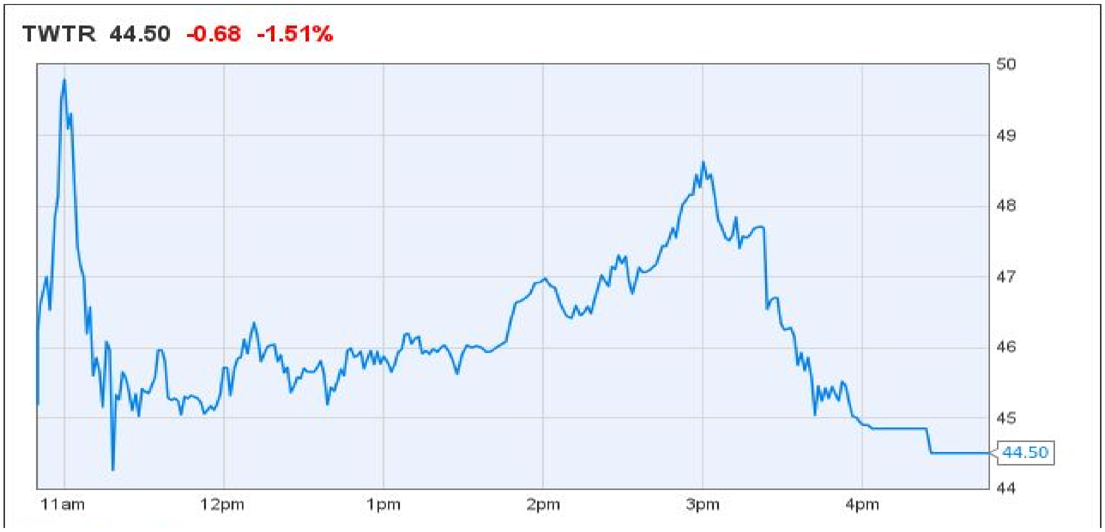
So the market opens and everyone is just anxiously waiting with the TWTR level 2 up, ready to go. 30 minutes into the open, still waiting. An hour into the open, still waiting. I feel like I haven't blinked in 60 minutes just waiting to see the data fly onto the screen and for the place to go nuts. The room is completely silent. It's now 11am and we're still waiting restlessly. Come on, open already.

11:08am - TWTR opens about $15 higher than it priced at $45 and I have never seen a computer screen move so fast in my life. "THEY'RE BUYING 45”, someone shouts, meaning there were refreshing buyers at the 45 level supporting the stock. If they break it is sure to be at $43 fast and every trader and their mother has a stop at $44.99.

They don't break. It rips higher at an alarming speed. I'm sitting there buying and selling 100 and 200 share lots in seconds.

Buying 45.50, selling 46.50.
Buying 46.75, selling 47.50.
Buying 48, selling 48.85.
Buying 49.50, selling... uh oh!

I had booked about $400 in profit at that point which was huge for my 4th day live. You never want to trade IPOs on the way down. You're just going to churn stock and waste money. As quickly as TWTR jumped from 45-49.50, it flushed right back down. I was staring at a 1 minute chart, buying every little bar that could have been loosely considered a pivot (or turning point back higher). I lose everything. I'm up and then all of a sudden I'm down $100. Lost $500 as quick as I made the $400. You could only imagine my mind-state on this 10 minute roller coaster.

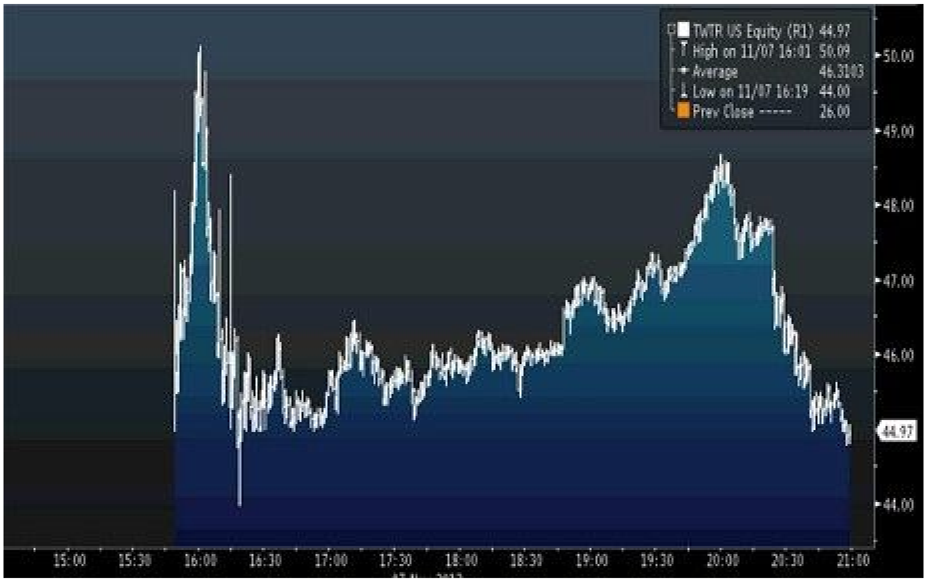


TWTR continued to coil throughout much of the day as the range got tighter and tighter. I was churning through stock, buying 100 & 200 share lots with about .20c risk and selling for .30-.50c (when I wasn't getting stopped out). With about 20 minutes to go in the trading day I'm now down about $200 and completely spent. Most of us were done trading, noting that the easy money had already been made. It was right around the price where it opened at this point. Usually, underwriters want their IPO to close at or above where it opened in order to consider it a successful first day of trading.

With an opening price of $45.20, you could imagine a lot of people wanted to see it close higher. All of a sudden, as the price hits $45.20 with an extreme amount of selling pressure trying to take the stock lower, it doesn't move. It never ticks $45.19. The buyers are back.

"THEY'RE BACK, THEY'RE BACK! THE BIDS ARE BACK!" I scream across the room. I throw some bids out for 200 shares at $45.21 with a stop at $45.19 and have offers to sell at $45.44 and $45.72. They both get taken and the stock comes right back to $45.20. I do the same thing again, bids out, tight stop, offers to sell. They all get taken.

There were very few of us taking advantage of this, so you could imagine my excitement as a newbie as it was working. "It's coming back down to the bid!" Same thing again: bids at 45.21, tight stop, offers to sell. I did this two more times until it finally broke the bids and I was stopped out and the market finally closed.



Myself and my Chinese buddy Xin (pronounced Shin) who also took advantage of the end of the day opportunity were ecstatic, high-fiving like we just made 100k. I ended up trade 22,000 shares that day in 100 & 200 shares lots. I couldn't even tell you the amount of executions that took. I ended the day after my first IPO up $32.27.

Mr X, one of the big traders who sat real close to Jack, was an actual big swinging dick. Mr. X came from an extremely wealthy family in China. He was as big a mystery as his name. He had slicked back black hair with the sides completely buzzed off - before it became cool, and spoke very broken English. There were rumors that he had a million dollars in his trading account. He was a legend among the Chinese traders, a demigod almost. Surprisingly, he was one of the most humble people you'd ever meet, a literal opposite of Jack, and would even help out the smallest trader if asked. He was known for his penthouse just apartment blocks from the office and for leaving his $50,000 Patek Philippe on the desk as he went to lunch. No one dared touch it, nor even thought about touching it.

He made over $50k that day despite being up over 100k after that initial morning pop. Right as the market closed, Jack walked over to the newbie desk where I sat, "*Anyone make any real money today? My boy over there put up 50k. What'd you do today?"* He looked directly at me.

"I made $32 bucks on 22,000 shares."

He laughed and said, *"Keep plugging away you fucking piker."* I didn't care. I couldn't have been happier. It wasn't about the money, it was about the lesson. I put myself in a position to make money and took advantage of opportunity.

I spoke with Mr. X and he didn’t trade many more shares than I did, he just knew what he was doing. I told him about my executions, while he thought they were a bit comical, he appreciated them. I earned a lot of respect on the floor that day. They saw in me the hunger I felt and knew I had the yearning to succeed which is utterly necessary in trading. Looking back on my executions that day, they were absolutely dreadful. I was continuously buying high, selling higher, and re buying even higher. It doesn't make any sense when you think about it. These days when I trade IPOs I would never do such a thing, you get all your stock in the beginning of the trade and load the boat when you know it's time. But at the end of that day, I felt like a king. A very broke, very naive King.

I'll never forget that day nor the emotions I felt. If you want to be a trader, you have to know how to take advantage of opportunity. Anyone can paper trade. It takes some real balls to get some skin in the game and execute. To this day it is one of the most rewarding days I've had merely because from that day forward, I knew I had what it takes.

Trading Psychology Task

If you have ever traded an IPO and had a good or bad experience please share the story in the Chart Reading Group chat!

POST IN THE TRADING PSYCHOLOGY CHAT

Fundamental Truths of Trading

1. Anything can happen

2. You don't need to know what's going to happen to make money

3. There is a random distribution between wins & losses for any given set of variables that define an edge

4. An edge is nothing more than an indication of a higher probability of one thing happening over another

5. Every moment in the market is unique

Mark Douglas

Let’s break these truths down a bit. They are VERY important.

1. Anything can happen. This one seems self explanatory but it’s something you need to keep in the back of your head at all times. Every time the market crashed it caught most investors off guard. Relating to the first lesson, we are not dealing with a rational environment. Financial markets, while stable most of the time, can quickly unravel and become unstable. There are an infinite amount of forces working simultaneously in every market at any given time. Regardless of the amount of time/effort you’ve put into analysis, the market can act as irrationally as it wants.

2. If you have perfected your edge, you literally don’t need to know if the market is going up, down, right or left because you know which signals to look for within individual securities. Now, this isn’t to say you need not pay attention to the overall market, this simply means that trading is simply a probability game. Concepts like right and wrong or win and lose no longer have the same significance.

3. If we believe in a probability based approach then we are utilizing statistics to figure out where our wins and losses come from. For example, a descending channel within a larger uptrend breaks higher 80% of the time. Therefore, 20% of the time, even though every indicator is telling you the trade will work, it will fail. But if you play the percentages to your favor, in the long run you will win.

4. An edge aims to create a consistent system to map out your trading style. You've accepted that trading isn't about hoping or wondering if the next trade will work, the only evidence you need to gather is whether the variables you look to are pointing to a trade entry. You focus on very specific credentials in each trade and avoid the "random" at all costs. If you believe in the viability of your edge, you are looking at the same criteria in every trade and recognize the random distribution between winners and losers.

5. Simply put, every second in the market is different from the last second. Though we notice similar signals over and over, every trade is independent of itself. Our minds are designed to automatically associate anything in the external environment that is similar to something we have seen before, called the automatic association mechanism. In many ways it is a positive attribute to have strong association skills, but we must always remember that every single tick in the stock market is different from the last. The less you associate, the more information you will be able to use to perceive what the market is offering.

Trading Psychology Task

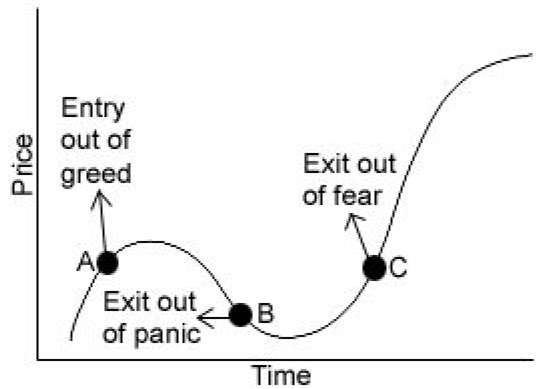
Share a time when you witnessed something happen to a stock that you never expected to happen? Did you profit from it?

POST IN TRADING PSYCHOLOGY CHAT

What is your trading edge?

POST IN TRADING PSYCHOLOGY CHAT

High Five Sell Signal



There is nothing in the world quite like trading. This is the one game that humans are designed to lose, based on emotion alone. The two most common emotions in the market are Fear & Greed, spoken by the old wall street proverb:

> "Financial Markets are driven by two powerful emotions -- **fear** & **greed**."
> *unknown*

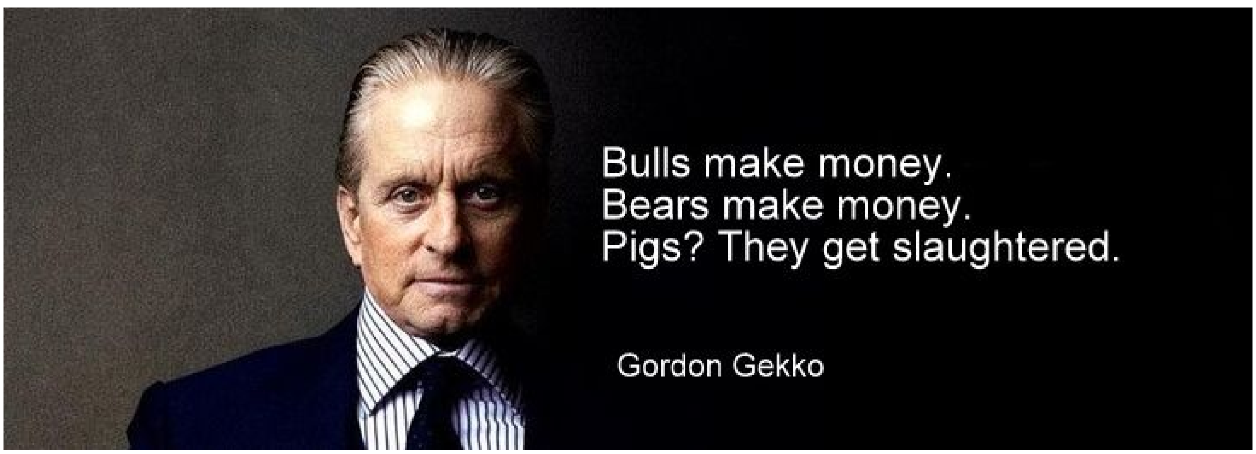
The emotion of fear is usually characterized as an inconvenient, stressful state, triggered by impending peril and awareness of hazard.

Fear is a dangerous emotion that can allow you to turn a small loss into a devastating one. Fear provokes a trader to ask, *"How bad can it get?"* When a stock is going against you, your natural inclination is to *'give it a bit more room' so maybe it'll turn around* -- nobody wants to take a loss! By giving it more room, you are not abiding to your original gameplan where you've already quantified your risk and picked a spot that tells you you're wrong when the price heads to that area. You are officially rotting with the stock. This often leads to a short lifespan for young traders.

Conversely, fear can also affect your winners negatively! When a stock is going in your favor, you are exuberant and you want to take money off the table immediately, in FEAR of giving back those profits. The first time the stock downticks you will want to sell it and solidify your win. Remember, great trading is characterized by big winners and small losers. This is one of the costliest mistakes traders make without ever realizing they're making a mistake --- leaving too much money on the table in their winners.

For this reason, we teach “paying for the trade” by selling a small portion of your stock into the first pop so you can handle the pullbacks. We see it all the time, we have a great buy in a momentum name and it runs $2, only to quickly pull back $1.50. Your emotions are an absolute roller coaster if you just ride out your position. By paying for the trade, you’ve booked some profits and have a content outlook for the rest of it. This way, if the trade pulls back, you can handle the gyrations knowing that no matter what happens, you can’t lose money in the trade. Paying for the trade is just as much an emotional tactic as is financially sound decision making.

The other side of this equation is the greed aspect. A famous Wall St. saying goes, *“Pigs get slaughtered”*. Greed is defined as an irresistible craving to possess more of something (money, material goods) than one actually needs.



According to several academics, greed is a lot like love in that it has the power to create a chemical rush through the brain that forces us to put aside our common sense and self-control and thus provoke changes in our brains and body.

Greed is the feeling when your stock is raging, you just had a great buy, and this stock looks like it’s going to $1000. We see it all the time in the chat room when everyone gets excited about a stock and doesn’t want to take any profit because it looks like it is only going higher.

We call this a ***“high-five sell signal”***. This is one way to combat greed. When you want to high-five your buddy or pound your chest about a stock --- it likely means it’s time to take some stock off the table. Of course, when you’re fist pumping, what does the stock do? It turns around and retraces -- as healthy stocks do.

This is when we see people’s emotions change -- “What the hell XYZ is CRASHING!” No it’s not, it just got a little too ahead of itself. If you take some profit into that first move, it will be much easier to hold your position back for a retracement, which ultimately leads to greater gains in the long term. What -- you thought you could just make money without any pain?! Remember, the best traders have no attachment to the trade. It's just another trade.

While fear and greed are greatly publicised, the worst emotion that traders abuse is HOPE. I've seen more traders lose their career over hope than anything else. Hope is the greatest mistake generator there is. Some mistakes caused from hope are lack of discipline, not adhering to your gameplan, risking beyond your means, improperly assessing the probability of a trade.

Let's say you take a couple quick losses back to back. What do your human emotions have you inclined to do? Make it all back! This is where hope comes in. You are much more likely to not properly assess a trade setup under these circumstances. You are very likely to begin overtrading or taking bigger risks, not because you think the setup is A+, but because you HOPE to make it all back to even. This will result in compounding losses. You took those 2 quick losses off the open and all of a sudden an hour later you have 6 losses, have lost triple what you normally risk, and your mental capital is SEVERELY drained. This is when you start beating yourself up, “How could I be so stupid!”

One of the most difficult parts about trading is that afterwards, everything is very black and white. You can pinpoint exactly where you made the mistake that caused a loss. Hindsight is always 20/20 and this is how you correct mistakes, but dwelling on the mistakes is further draining the mental capital. This is why detachment is so important, it will keep you clear headed in your decision making.

We equate ‘hope’ in trading to ‘tilt’ in poker. Tilt is defined as a state of mental or emotional confusion or frustration in which a player adopts a less than optimal strategy, usually resulting in the player becoming over-aggressive. Deep down you know you're making a financial mistake, but for some reason you proceed anyway. It is impossible to be your best trading-self when operating under these circumstances.

The winners -- the best of the best -- have developed a specific mindset that is the key to their success. Their unique set of attitudes allows them to remain disciplined, focused & most importantly confident in spite of uncertain conditions. As a result of this mindset, they're no longer susceptible to the common emotional errors that plague the average trader.

Just as people can learn the proper technique of swinging a golf club or shooting a three pointer, their consistency, or lack of it, will without a doubt come from their attitude.

Trading Psychology Task

Share a time when you fell victim to fear? What did you learn from it?

POST IN TRADING PSYCHOLOGY CHAT

Share a time when you fell victim to greed? What did you learn from it?

POST IN TRADING PSYCHOLOGY CHAT

Share a time when you got caught up trading due to hope? What did you learn from it?

POST IN TRADING PSYCHOLOGY CHAT

Trump'd

November 9, 2016 is a day that will live in infamy in US History as Donald Trump became the first President to win the election with no political ties. Now, to be very clear -- we never cared who won, we cared about the implications of each side winning. Say we're cold or whatever you want -- but we're TRADERS. We take an event and think about what will this effect? How can I potentially profit off this information? Not to discount the fact I believe there is nothing dumber than people getting in political arguments in public or even worse on social media.

"A wise man told me don't argue with fools,
'Cause people from a distance can't tell who is who."
Jay-Z

As traders, we don't care about politics, as aforementioned, it's all about how we can profit from the situation. I cannot stress that enough. What is going to be the aftermath of this change? What will be the outward effect?

Let's take it back to before the election, when everyone wanted to talk about what would happen if each won --- and the polls. The POLLS! Can't forget about the ever important POLLS! Every single poll pointed to a landslide victory for Clinton.

This was every economist in the world's time to shine. The consensus was generally the same -- A Trump win and the markets should COLLAPSE. What does the market hate?

Uncertainty. So a wildcard like Trump should crush the markets. It’s funny to look back on knowing the end result, but this is true. The masses believed Trump’s isolationist policies would create trade wars and send global markets into a frenzy. So, I’ll admit it, I drank the punch.

What happened? You know the tale -- Trump wins and the market is down huge overnight. The SPY, which closed around $214 was now trading around $199, down 7%. I’m in bed at 3 am on my laptop counting my cheddar, telling myself to let my winners ride LOL. I pass out for about two hours and rush into the office, noticing we’re significantly off overnight lows. In fact, there is a buying FRENZY. I can see my P&L retreating closer and closer to breakeven. I don’t think I’ve ever seen buying like this. Something has changed. We are SNAPPING back.

I begin to quickly think on my feet. Who’s screwed? I’m screwed! Knowing the psychological implications of a snapback, I quickly switch tunes and cover my short break even and buy the hell out of the market. I load up on SPY and make some gameplans regarding Trump’s major policies. Trump ---- war ---- defense!

I typed up US Defense behemoth’s Boeing (BA) and Raytheon (RTN), made a game plan, found an entry and absolutely CRUSHED the trades. In BA, I saw it had the gap up two days prior and the consolidation to follow. In a time like this, where emotions are running so high, I know the envelope can get pushed. This wasn’t an A+ chart by any means knowing the way I usually trade (where I need a ton of technical confirmation to get involved), but given that the circumstances matched up with the heavy buying pressure, everything made perfect sense. I bought $142.50 with a $1 stop below lows and sold most towards the end of the day $145-146 but held onto a small piece for the $150 area sell.

BA daily chart as it began the Trump Rally.

Similar to the BA trade, the chart didn't tell the story in RTN. It was the drastic implications of the news along with the heavy volume buying so I bought new all timers $143.50 with a low of day stop at $142.96. I sold along the way up but it ended up being too feasty and I ran out of stock that day! My highest sell was $151.22 for a solid 14:1 risk/reward.

RTN Daily Chart as it began the Trump Rally.

SPY Daily Chart as it began the Trump Rally.

These trades prove how you need to be flexible within your psychological process. You always need to wonder what you'd be thinking if you were on the opposite side of the trade. If I had been stubborn about my initial short, I would have likely taken a huge loss, averaged down a bunch of times & severely drained my mental capital. Instead, I made money because I was able to recognize the changing of tides and acted appropriately. Being able to quickly piece together a puzzle and gather all information with a clear mind is the difference between the greats and the losers. All in all, be flexible and quickly think on your feet to form gameplans --- OH -- and NEVER listen to economists.

Trading Psychology Task

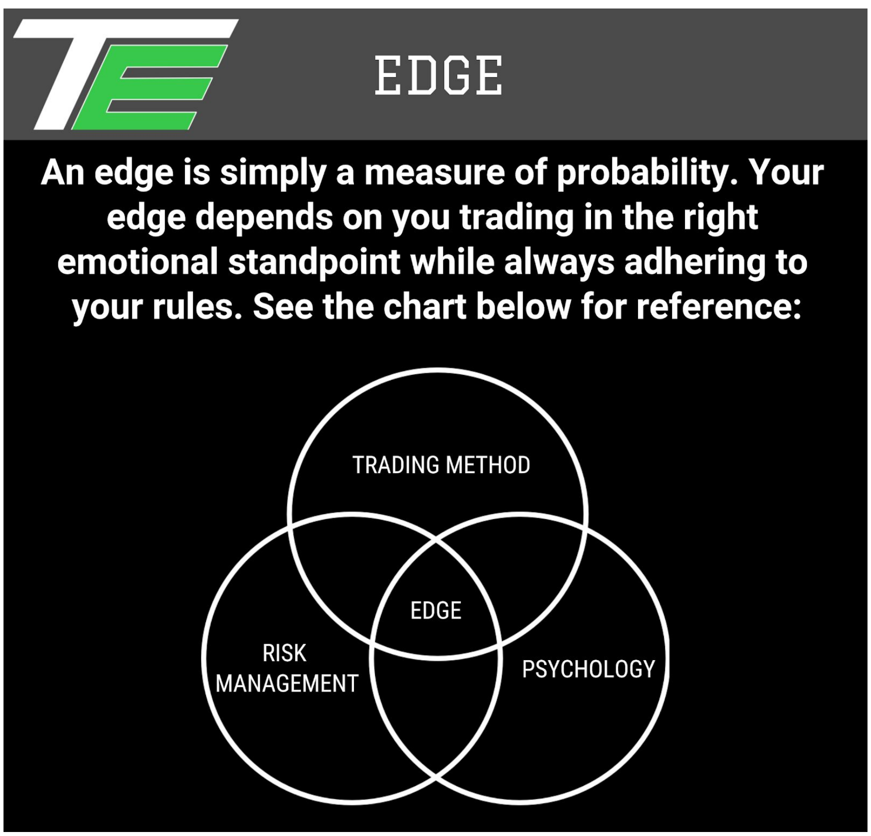
Has there ever been a time when you had to odd lot your own idea? How did it pan out?

Was there an outside event such as an election or major news event that you felt would crush the market when the exact opposite occurred? What did you learn from it?

POST IN TRADING PSYCHOLOGY CHAT

Congrats you already finished 20% of this program! Keep up the hard work! If you're proud of this say "I'm at the 20% mark!" in the Trading Psychology Group Chat!

The Edge



An edge is simply a measure of probability. Your edge depends on you trading in the right emotional standpoint while always adhering to your rules. See the chart below for reference:

Your 'edge' in technical analysis is the trade setup. But every bull flag is not made equal.

So -- How can we measure it?

What will separate you from the pack is the layers of probability surrounding the trade. The Layers of Probability (LOP) relate to how many factors you have working for you in your trade.

You need to be certain in the viability of your edge because confidence (& mental capital) are the most important attributes a trader can possess. (Ok fine, patience too.)

How can we combine these layers of probability to benefit us? Let's look at a few A+ setups from over the years and the LOP they provided:

AAPL through $120 was an A+ trade that we absolutely crushed. We had complete conviction in the trade.

Let’s talk about the LOP in this AAPL trade that gave us the conviction to pound the table & subsequently went straight up for 10 points.

- Apple, the world’s most relevant company, is setting up for a break of all time highs.

- The bull flag came about after an earnings beat, surprising the street with a 17% higher EPS.

- The stock gapped up to a huge level and went sideways for 1-2 weeks.

- The market was stabilizing after a choppy period, breaking higher.

- It allowed the 8 SMA, the momentum moving average indicator, to catch up and get very tight on the daily.

- Showed all the classic symptoms of a great bull flag breakout.

- Heavy volume on the move up (creating the flagpole).

- Followed by a rest period characterized by low volume and sideways action (creating the flag).

- Eventually followed by a breakout on heavy volume definitely breaking through resistance making it’s next leg up.

Tesla through $261 breaking the downtrend was an A+ trade where we made 50 points in just 11 sessions.

Here is the original sendout from the 3/25/17 Newsletter:

Trade of the Week: TSLA Long

Looky looky what we have here. Our old buddy Tesla seems to be setting up for yet another breakout. You can see it beginning to wedge with strong volume. In order for the trade to trigger, it has to take out the highs of its earnings gap down. This is significant because all traders short from that day will have their stops above those highs at $265. Also, you love to see Tesla put in a strong inside week (two charts down) at the ever important price point of $265 which we can see has been significant in its past.

The only thing holding me back from loading the boat in this one are market conditions. If the market is looking too shaky for this one, I'll let it go without me.

Trigger: $265

Stop: $253.99

Target: $280-290+

We achieved about 20:1 risk/reward when it was all said and done. Let's talk about the LOP:

- Tesla was coming out of an insane uptrend -- it broke a longer term downtrend and ran over 100 points from 180 to 287 in just over two months. The uptrend is strong, those buyers aren't going anywhere. I wasn't going to chase so I waited for a setup -- as you can see by the wedge mapped out above.

- Tesla has a notorious short float (~30% at the time), which is why it trades with such great momentum. Short covering creates momentum because to take a loss, they have to buy the stock, creating upward pressure. That, paired with the traders going long at the same time means you will have yourself some momentum.

- The TSLA monthly chart had been on my radar for some time. It had virtually been in a 3 year bull flag on the monthly chart (pictured below). The blue arrow is $261, where the wedge noted above triggered. We LOVE it when trades triggering on the daily coincide with weekly & monthly levels.

- Remember how I said I missed the huge 100 point run so I wanted to wait until I saw a setup? The biggest clue of a setup was the inside week (pictured below). I love it when a stock has an inside week just underneath a level. An inside week is a symbol of consolidation -- buyers meeting sellers. So I knew this was the entry I was looking for because I needed a confirmation of contraction (tightness) so I had a calculated place to enter where I could expect expansion (breakout).

OLED through $60 IMMENSELY exceeded expectations running over $25 higher in 6 weeks. Let's look over the cues:

Here is the original sendout from the morning OLED triggered:

On the Radar: OLED Long Inbox x

Trading Experts TradingExperts1@gmail.com via delivery.klaviyomail.com Jan 23

to me

Trading Experts

On the Radar: OLED Long

Semiconductor stocks came alive after the positive earnings news Thursday evening from SWKS. The stock soared $10 intraday Friday, which lifted many stocks in the group: AVGO, QRVO & CRUS to name a few. OLED also had a strong day following this news as it looks to break out of a massive wedge. While it is a bit of a sloppy chart, through $60 on some volume should get this name out of its consolidation area.

Trigger: $60

Stop: $55.99

Target: $68+

- OLED created virtually a PERFECT wedge pattern
- Moving averages consolidating together indicating an expansion may occur soon
- Volume began increasing towards the end of the wedge

- Cataclysmic volume to break out of the wedge as well as the immediate days following

- The Sector has been piping hot

- Recognized the strength in chip stocks (SWKS, QRVO, AVGO, CRUS) over the past few sessions which put them on our radar

- The chart COULDN'T have gotten any TIGHTER

- You have to know the names you're trading and what to expect their daily trading ranges to be

- For example I'm going to expect much more out of a stock like TSLA than I will one like BAC

- OLED is a name that generally moves $5-8 a day so when it began trading in $1-2 ranges I knew it was time for this wedge to break soon

- Things can’t stay tight forever

So in summary, let's look at the common characteristics of these trades. They had a well defined chart pattern with clear indications of the Layers of Probability surrounding the trade. There was some fundamental, short term news that would definitely affect how it traded over the next few weeks. In Apple it was coming off positive earnings. OLED the entire sector was piping hot. TSLA subsequently dropped news their demand was at record highs the day after we initiated the trade. You tend to get lucky in the strong names from the news front.

So in the simplest sense the formula is A+ Chart + Positive News Catalyst.

Stacking LOP will give you the conviction you need to truly crush trades. You will get to a point where you usually risk 1k per trade but this one, for example you want to risk 5k (or whatever is relevant to your trading) because you know it could be a special one.

Trading Psychology Task

Your task is to find a macro bullish pattern similar to the examples used above that is currently setting up. A chart that has been setting up for 6 months plus. Let's see the chart pattern draw out, the complete game plan and the layers of probability mentioned as they were in the examples above.

POST IN TRADING PSYCHOLOGY CHAT

Time Frames

Are the days for day traders numbered? Why larger time frames are more important.

Simply put, larger time frames have a greater amount of participants, leaving a security less susceptible to manipulation. Staring at a 1 minute chart makes stocks moving in a 20 cent consolidation appear to be crashing up and down dramatically. There are a lot of fake out signals on smaller time frames that you cannot put too much weight into.

When you are looking at a 5 minute chart or even less -- each tick is representing a somewhat dramatic change in the stock price. In these time frames, professionals & High Frequency Traders (HFTs/Algos/robots) truly excel. Professionals relate to the scalper who makes their living risking 5 cents to make 15 on 1 or 2 minute charts --- and started finding grey hairs their third day on the job. HFTs relate to the recent popular algorithmic trading craze that is sweeping the market.

So this brings us back to the question, “Are the days for day traders numbered?” Yyes, they are, because of these HFTs dictating the market. That being said, buying and holding patterns on a larger time frame will never go away as these patterns are tried and true & have survived everything the market has thrown their way. What I’m trying to say is that Swing Trading will never die.

The larger the time frame, the more participants and the more significant the support and resistance levels. What our goal in our strategy aims to do is find intraday entries on 15-30 minute-hourly time frames that will affect the stock’s daily or weekly chart. For example, When we see an hourly flag under a weekly level --- we want to load the boat long.

The best breakouts always occur after a pattern is drawn out really well on a weekly or monthly time frame. Let’s go over a few examples:

WYNN was working on a huge macro base for about a YEAR. Traders were staring at this for months and months before it finally broke out of the consolidation.

Similar to WYNN, CMG recently broke out of a huge basing pattern. It worked on this base for about eight months before it broke out over $60 nearly straight up over the next three weeks.

SHOP flagged at new highs for a period of about 4 months before the stock nearly doubled in the next 4 months.

The takeaways are that larger time frames have greater significance than smaller ones. If you focus on very small time frames you will mistakenly see signals and get faked out by the HFTs. These algorithms know exactly where day trader's stops are and so easily manipulate them. Day trading is for the birds --- the real money is made over the years by swing trading.

Whenever I do my annual review in trading, I find that about three quarters of my annual P&L comes from about 4-8 monster winners from the year. The day trades & quick trades are appealing when you're sitting in front of that computer all day, but know where the real money is made. Swing Trading.

Trading Psychology Task

Your goal is to find 2 macro patterns of resistance that have been forming for at least a year plus. Include game plans for both and at least 4 layers of probability in your favor.

POST IN TRADING PSYCHOLOGY CHAT

Trading Stress Away in 9 Simple Steps

When we think of stress or specifically stress when it comes from trading, where does it all come from? It usually comes from our mental deadlines of that million dollar account that we want by Friday with our $10,000 account on Monday, or the ambition of being like the trader across the way who has a bigger account than you, yet who might actually have more debt.

Remember that everything we are talking about are thoughts, trading is not stressful, your job is not stressful, or anything for that matter. Your thoughts about trading, your thoughts about your job or insert whatever thoughts bothers you is what is actually stressful.

Now I am not going to sit here and say that you will never get stressed again, however there are ways to help reduce it, first is becoming educated on the issue that is stressing you. When it comes to trading most are making emotional based decisions even though they claim are rational. When you are uneducated on the topic, it can be even more daunting and stressful.

The market is crashing now, hurry run for the exit and raise cash! - Emotion

The market drops from time to time, and after 20% drops, the market tends to be higher 12 months later, in any 10 year period the market has always higher - Rational

Now this tends to be easier said than done, so if you would like to try a simple 9 question exercise let me know if it helped reduce your stress levels on what you choose to discuss. You can make this about trading or how your future mother in law is stressing you out about marrying the girl you just started dating 3 months ago. Sharpen your pencil and go nuts!

Step 1 - Write down a concise sentence describing something that you experience as stressful. It helps to use the words “should” or “shouldn't”.

Ex. I should be making more money trading...
Ex. I should be working less….
Ex. I shouldn’t be trading so much...
Ex. I shouldn’t be so pressured to….

Step 2 - On a scale of 1-10 how strongly do you feel this belief is true? (10 being the highest)

1 2 3 4 5 6 7 8 9 10

Now if it is less then a 7, it most likely isn’t a big concern for you, so dig deep and be honest with what is really bothering you.

Step 3 - You are now going to explore the cause and effect relationship between what you believe, how you feel and how you act. Circle or write down at least 3 words that you ***feel*** when you believe what is stressing you out.

Afraid Abandoned Angry Annoyed Anxious Confused

Depressed Desperate Embarrassed Frustrated Helpless

Hopeless Hurt Impatient Inadequate Insecure Invisible

Jealous Nervous Rejected Resentful Tense Upset Worried

Step 4 - Now circle or write down at least 3 words based on how you ***act*** when you feel this way?

Argue Belittle Blame Bully Complain Cry Drink Eat Escape

Fight Find Fault With Give Up Gossip Insult Interrupt Lose Sleep Manipulate Obsess

Overwork Pity Myself Preach Pretend

Procrastinate Shop Shut Down Smoke Suffer Withdraw Yell

Step 5 - Now take your statement from Step 1 and flip it, if you used "should" use "shouldn't" and vice versa, and try to add *"In reality"* in the beginning and *"at this time"* or *"at that time"* at the end.

Step 1 Statement *"I should be making more money trading…"*

Step 5 Statement Now "***In reality****, I shouldn't be making more money trading* ***at this time****."*

Step 1 Statement "I need to be right in every trade"

Step 5 Statement Now "***In reality****, I don't need to be right in every trade* ***at this time."***

Step 6 - Now take the time to write all the proof that supports your statement from step 5 as being true in reality at this time (or in the past).

Ex. *In reality, I shouldn't be making more money trading at this time,* ***I just started trading a few months ago.***

Ex*. In reality, I don't need to be right in every trade at this time,* ***I just need to make more when I am right and less when wrong.***

Ex*. In reality, I am not a failure at this time,* ***I am just learning how to trade recently.***

Now read that statement out loud, use that voice of yours and say it. Scream it for all we care, we won't be able to hear you, however trust me, you will feel better after doing it!

Step 7 - How do you ***feel*** when you see the truth of your once stressful statement?

Circle 3 or write down your own based on how you feel.

Calm Clear Compassionate Connected Curious Enlightened

Enthusiastic Excited Free Grateful Honest Humble Intimate

Light Loving Optimistic Peaceful Playful Relaxed Relieved

Serene Supportive Tolerant Truthful Understanding

Step 8 - What **actions** might come from this? Circle or write your own.

Accept Apologize Approach Be Honest Breathe

Clarify Communicate Contribute Delegate Exercise

Explore Focus Follow Through Forgive Give Thanks Listen

Make Amends Network Open Up Participate Prioritize

Reach Out Share Speak Up Support

Last Step - Read your original statement again, how strongly do you feel this belief to

be true now?

1 2 3 4 5 6 7 8 9 10

Don't you feel lighter now? That weight lifted off your shoulders a bit. Now that you have completed this task, you successfully stretched your stress muscle in that thick skull of yours. If there are other things that are stressing you, repeat this same process. Before what was bothering you, you might have been too stubborn or fixed in your ways to make a change, and hopefully now you can see the light at the end of the tunnel and pivot for the better!

Trading Psychology Task

Post your statement in the Group Chat if you felt this was helpful.

If you found this exercise to be helpful, realize that most people you know are also stressing about something. Take a moment and send this lesson to someone that might find it useful. Hopefully we can help more people reduce the level of stress they are putting on themselves!

Trading Stress Away Free Link for Friends and Family

2 of our best reads on the subject of stress

How to Stop Worrying and Start Living by Dale Carnegie

The Myth of Stress by Andrew Bernstein

FOMO No Mo

The fear of missing out, the millennial's form of in school suspension while your friends go on a class trip, when it comes to trading nothing has blown up more traders than fomo and chasing names other than maybe crypto, options or scammers. However if you get scammed you are a certain level of stupid, when you are the one to blame solely from your own stupid decisions that tends to be a harsher pill to swallow than getting duped by someone else.

Fomo is simple when it comes to trading, you are not prepared for the day, you see others making money and want to jump on the bandwagon. We have all done it, and what happens? We buy the dead high and stare at a screen of red in silence while everyone else is selling and high fiving. Now before you jump it and say *“but this one time”* save your breath, you're reading a page in our program and unfortunately this document will not answer your “buts”. We are going to cut FOMO out in two simple steps.

Step one - after the close, you start to prepare for the new trading day, you have your game plans written down on paper, on your phone, on the fridge, I don't care where you write it down, just write it! You do that every day to be ready for the following day. Now if the next day the trade goes without you, then you can call yourself a jackass, however if some random stock that you never even heard of is up 25% it won’t matter to you because it was not on your radar.

Every morning before the open Shake is posting his top ideas before the day begins, he knows what he wants to buy, what his risk is before the day starts. He is not waiting for the bell to ring to start rushing to throw cash in the market.

Ben has a habit of putting in his buy stops after the close for the following day. If his ideas trigger, great, all he has to do is log in, put in his stop loss and let the trade work. If by the end of the day the trade never triggers and he finds a better opportunity, he will simply cancel the non triggered order and put in a new one or leave it in if he still likes the set up.

Anyway to help you make decisions while the market is closed will be beneficial during the hours the market is open.

Step two - can replace step one in entirety if you use buy stops, every trader is different so this is up to you. I know from talking with new traders that they want to be able to market in when the stock is going because they want to be in control even though more often than not, they miss the break, end up paying higher or make up an excuse to click the button. For myself, I live and die by (buy and sell) stops. At any given time I can have anywhere from 1 to a dozen buy or sell stops in the market. Beginning of 2019 I have over 20 buy stops in the market buying every Big Picture ETF and as the market ran up I was super heavy with sell stops. On the buy stop side if I want to buy $150.05

in Apple at it's 3rd attempt at the level, I don't care about what new traders “want” to happen. I just put the order in and if it goes, I’m in, I’ll leave it up to the pro’s who only want to buy it on a full moon on the 3rd Tuesday of the month on increasing volume above whatever moving average they are watching. I just keep it simple and put the orders in before the market opens or after the market closes. When the market is not moving, fomo tends to die a slow death.

If you enter your stops during the day that is fine too, a general rule of thumb I follow is I wait until at least 10am before entering a buy or sell stop. There is nothing worse than getting ticked in on a wide name off the open when the market makers have not been able to tighten up the bid ask spread. During the day as I scan the market if I find an opportunity I have no problem entering a buy stop, however most of my orders are entered the day prior or after the close to avoid fomo.

Now some things to remember, during earning season you better know when your names are reporting and these are the **only times** to use a **buy stop limit**. With most names that are reporting earnings and setting up, I will have no problem paying up $.20 or more to catch the move while avoiding catching a $20 point gap up and marking the high.

Example of a Buy Stop Limit wanting to buy $100 in WIX

Buy Stop Limit $100.05 $100.25

This means that once WIX is above $100.05, I am willing to pay up to $100.25, not a penny higher, if WIX opens at $105, I will have missed the trade and more often than not, completely ok with that.

By following these two steps you will help curb your fomo, there still will be the 1 out of 10 buy stops that ticks you in by the penny and never sees the light of the day. Given how we are wired to lean towards loss aversion and the pain of losing tends to hurt twice as bad as winning those small mess ups we tend to remember. While we forget about the only half dozen buy stops that worked like a charm and never looked back. If you fall victim to fomo, follow those two simple steps and you will start to see fomo drift away like water off a duck's back.

Trading Psychology Task

Share a story where FOMO got the best of you?

Let's hear what the two steps are to help remove FOMO?

What will you do to help curb your FOMO?

POST IN TRADING PSYCHOLOGY CHAT

You are officially at the 50% mark! Only 50% to go! Drop "I'm at the halfway point and I learned ...."in the Trading Psychology GroupChat!

Perspective

When Bennett & myself were first hired as rookie traders, we were told we were the 'new crop' of traders. Our first trading desk was actually pretty comical. We were the only Americans on the desk besides our boss. The rest of the traders were all of Asian descent, straight off the boat. We certainly stuck out like sore thumbs at that desk.

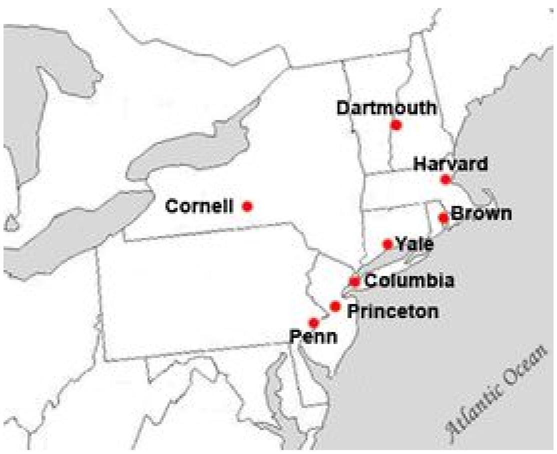
The office was fresh off a 'fat trimming week' -- where they fire mass amounts of traders who aren't delivering results. So this being my first job out of college, I was very curious as to what happened to all the traders? It wasn't a seemingly corrective time in the market. From talking to people at other desks, it seemed traders were doing pretty well.

We were in a trending market so swing trading was in full effect (this the time when professional traders make the most money). So I asked my new boss Chaz,

"What happened to all the traders during the fat trimming? Why were so many traders fired so abruptly?"

Mind you, this is my first real job, one of my first days and I'm already walking on eggshells in fear of my career. I haven't even traded a single share yet.

Chaz begins to tell us about the previous crop of traders who just didn't work out in the slightest. He tells us they tried this new strategy where they strictly hired Ivy League graduates due to the fact that they're the smartest young adults in the country. Good thing Bennett (2.4 GPA) & I didn't apply then!



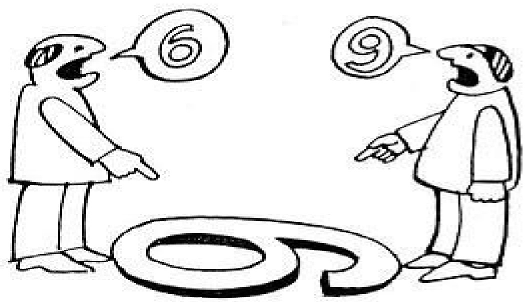
So I ask Chaz, *"What happened?"*

"*We talk about how trading is a mental game every single day. You can have all the tools to succeed, put yourself in the right position to make money, but if you're not right mentally then you will manufacture mistakes left and right. Every one of these Harvard or Yale kids I hired will probably go on to be astrophysicists, but one thing they will NEVER be are traders*," Chaz stated.

"You see, these Ivy grads have a knack for figuring everything out to its core. However, the market fluctuates in random patterns at times. Granted, it's based on human emotions, which is something you could never make an equation or model for. It caused these brainiacs so much mental anguish when they couldn't figure out why a trade failed or where they went wrong. This mental anguish created a blockade in their minds which will never allow them to find success in trading. In trading you have to be flexible -- things can change in an instant. They could not accept the market was outsmarting them and will ultimately blow up & fail."

I said to Chaz, *"But these are the smartest guys in the country. How the hell can a dumbass like myself find success while a summa cum laude Harvard grad is failing?"*

Chaz responded, with a big smile on his face, *"I was hoping you'd come to that conclusion. You see the market is constantly providing information. Every single second with every tick, there's information. There isn't happy or painful information -- just information. It may seem as if the market is causing you to feel a certain way, but that is just how your mind is PERCEIVING the information. See, PERCEPTION is one of the most important attributes a trader can utilize."*



This finally began to make sense to me. Professionals don’t perceive anything about the markets as painful, therefore they are able to process information from an unbiased stance. It is imperative you are able to see the market from an objective perspective. You must be able to act without any hesitation, but also with the appropriate amount of positive restraint to counteract the negative effects of overconfidence or exuberance. In essence, your goal is to create a unique state of mind which we call a *trader’s mentality*.

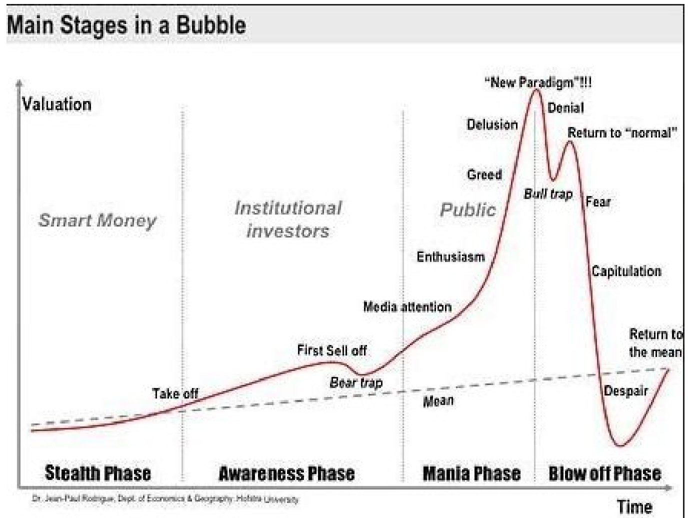
The goal in trading is to always remain flexible in your thought process in order to gain the trader’s mentality. You do not have to be the smartest person in the world to understand technical analysis and human behavior. You can even be a dumbass and figure it all out!

Trading Psychology Task

Prior to joining Trading Experts compared to now how has your outlook on the market, investing, and trading changed since those days?

POST IN TRADING PSYCHOLOGY CHAT

Bubble Talk



Speculative market expansions have often been associated with popular perceptions that the future is brighter or less uncertain than it was in the past. There was a time in 1999 when a toy stuffed with plastic pellets was deemed a long term investment and worth over $20,000 yet billions of them were sold annually. Today that same $20,000 bean bag is worth a whopping twenty five cents. Bubbles prey on common behavioral fallacies such as our over reliance on past performance as a predictor of future results, our tendency to have an over inflated concept of value for the things we own (the endowment effect) as well as the most common, herd mentality.

Dream *"It's up 1000% this year, it will be up another 1000% next year!"*
Reality You were green for 1 day, and red for the next 364 days.

Dream *"That car isn't worth $100k, mine is worth much more!"*
Reality Neither car is worth $100k.

Dream *"I know a guy who made a ton of money from it!"*

Reality You've only lost money because you're late.

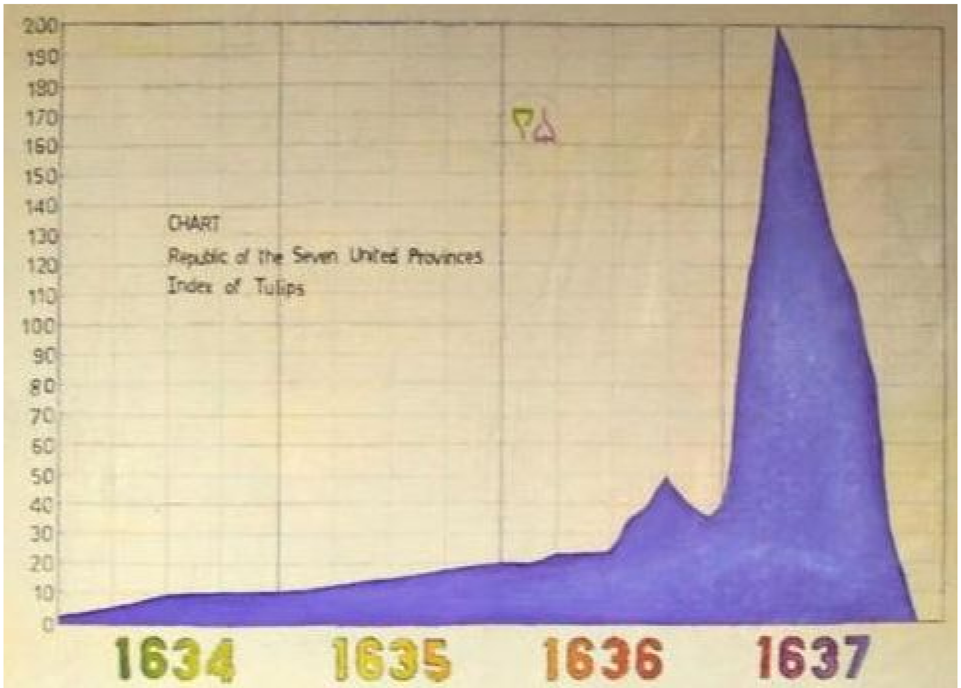
The fairytale of Bubbles is built around a story that goes something like this; First something new comes to the market, it captures the public's enamoration, followed by a small group of early investors to start making money from it. After, those people are heralded as geniuses or gurus. From there it continues to grow and grow as the herd piles in. As the market starts to overheat, prices start to inflate, and even more people are herded in. The higher the price climbs, the more people find the urge to talk about it, and as a result more people chase and chase, until everyone down to the family pet has a position.

As it continues to increase, humans assume that historical patterns will continue even when it's future demand (not past returns) will impact prices in the long term. In the most simple term, a healthy market grows (increases), consolidated and further increases as the trend continues over the long term. Something that trades in a straight line up, also tends to trade back down in a similar fashion, and the way down tends to be much faster and more violent because people high five on the way up and then crap their pants on the way down (until they capitulate, of course).

Very rarely do you ever want to be on the side of the majority when it comes to an investment. I can insert the obvious and overplayed Buffett quotes however we all already know them. When everyone is shouting from the mountain tops to get long, probably time to get the fuck out because it's about to get quiet…..

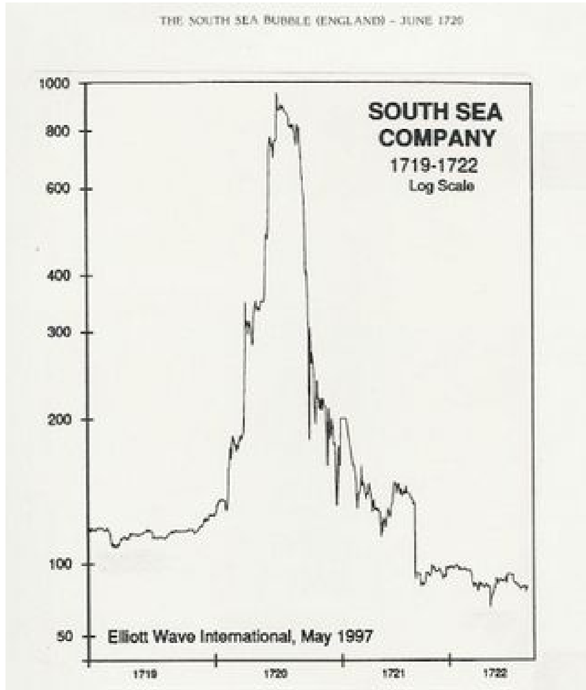
Let's take a quick stroll down memory lane........

1st recorded bubble - Tulip Mania



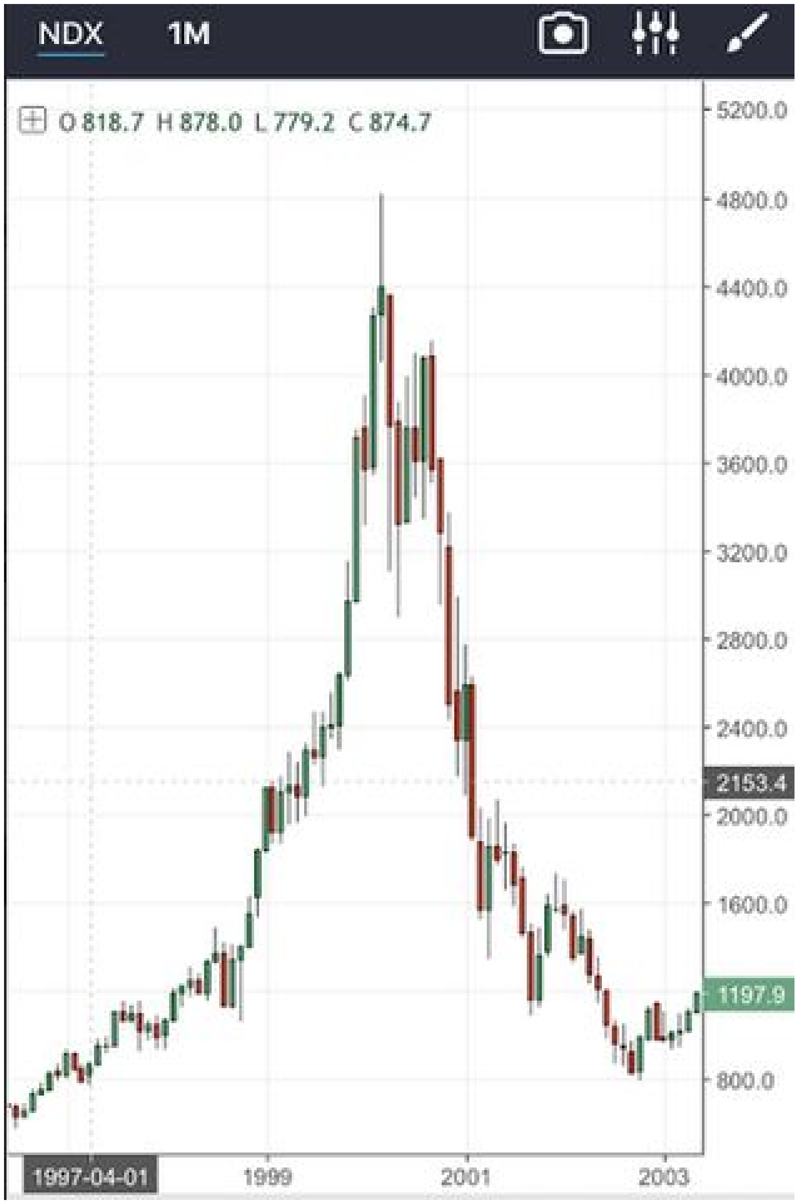
The first known bubble in history was *"Tulip Mania".* Yes, we're talking about flowers. The tulip and it's beautiful bulb became a symbol of status in Holland in the 1730's. The public became *obsessed* with the flower and it began at foolish levels. At its peak, bulbs were selling for the price of a house, 10 annual skilled worker incomes, or 12 acres of land. People were willing to sell their home in exchange for a useless flower that would be dead in a few weeks… absolute madness! One of the main reasons this bubble got so out of hand was two fold, first was leverage (think options) people who couldn't afford to speculate could and secondly, the trading was done in a time where there was no fresh drinking water. The only thing men could drink was beer, I am not kidding. Trading also was done at night in pubs. These people trading were drunk, adding fuel to the fire.

The Second Major Bubble - South Sea Company



Let's go back a few hundred years when South Sea Company went on a 900% run. Same story as most bubbles, just as quickly as it soared, it tanked. People 'buy & hope' on the way up, only to 'hold & shit' on the way down.

Most commonly cited bubble of our lifetime - Tech Bubble



Tech Bubble 2000. A 500% rally in a 2 year span in tech stocks where billions were made (and lost) on paper. One day tech traders were getting driven around in limos, a year later, most were driving limos.

OIL Bubble

During the volatile years of 2007 and 2008, Oil spiked due to the fear of oil shortages resulting in a panic that caused oil to go on a major run. At its peak, there were talks of $200 a barrel oil. We're currently at around $60 a barrel.....

GPRO a 300% rally that we took part in trading on the way up -- and on the way down. When GoPro was near $100, there were headlines saying it would be the Apple of the camera world. Since, it's down 90%....

Bitcoin Bubble 2017

The mother of dumb money, reminds us of the Dot Com days, everyone was in and killing it, all you had to do was buy and hold..... Same thing today, I've heard quotes saying it's going as high as $100,000 why $100,000? Why not?... are most responses.

Look at this chart and ask yourself if it looks like a good investment? If you bought in the past, hell yeah! However, now or more recently you'd be late to the party. By late, you're about 2000% late in the past 2 years.

At current levels every $1,000 increase sounds like a lot, however percentage wise, it gets smaller and smaller as it increases. $1000 to $2000 is 100%, $10,000 to $11,000 is only a mere 10%. Currently bitcoin and all the cryptocurrencies are in the *Delusion* phase of the bubble. If you're blindly getting in up here because *"everyone else is in,"* realize that this is the dumbest investment approach possible. Once an investment becomes mainstream and the crowd is in, we want to run for the exits.

Trading Psychology Task

Find a stock that you feel is currently in a bubble or one that has already popped, let's hear how much it increased percent wise in the run up and how much it is down off highs.

POST IN TRADING PSYCHOLOGY CHAT

Information

> Thirty years ago the best investors had the biggest funnels of information. Today the best investors have the best filters of information.

The market is an endless supply of information. It is always spitting out unique information every single second. It is not supplying painful, joyful, angry or happy information, just information. How we perceive this information is up to us.

If you have a position in a stock, long or short, you are going to objectively see things as you want to. If you're just cruising around the market typing up charts with no positions on, you'll likely see the full scope of what's going on.

If you're long, you are more likely to focus on the positive bullish aspects of your trade because making money feels good and losing it feels bad. *"I've spotted this buyer on the tape or the moving averages are all curving up on the daily chart, there is a tight bull flag on the daily chart, etc."*

You don't have as great a propensity to look at things from the other side --

"The volume on the hourly has mostly been red volume" or *"the break of highs just failed at a downtrend line on the weekly chart".*

The message that is important to ask yourself, *"If I was on the other side, what would I be thinking?"* Should I be nervous because my trade looks like it will fail or should I be confident because I am seeing the indicators all come together to show more downside ahead? While you're at it, ask yourself where your stop would be.

It is much easier to objectively navigate equities with no position as the entire picture will be clearer. How you perceive information is completely changed and you have no attachment to the stock. If you have a position, you have an attachment to the stock in the form of your risk. Consider you're long a stock and you see a massive seller come in; you're going to perceive that as negative information, when really it's just information. But because you have a vested interest, you have negatively charged emotions to that seller. If you just naturally come across the seller with no position, you just perceive this information as what it is black and white.

If you want a horse to win a race but they lose, you may briefly be upset but get over it rather quickly. If you bet your rent money on the horse then you're going to be pretty angry. How you perceive information will be drastically different. If the horse rallies from 6th to 1st you will be ECSTATIC because you are so heavily invested in the race.

This lesson ties right into position sizing. Remember, we want to have no emotions when trading because they are the enemy and will cause you to act irrationally when too wound up.

If you're living and dying in every trade, it is likely you are risking too big a percentage of your account on each trade. I personally like to risk 1% of my account for favorable trades, depending on the setup.

Remember, longevity is much more important than today's P&L.

Trading Psychology Task

Share one or more of your own marks that you know the trade is screwed when you say it. If we know your marks we can help point them out before Mr Market cleans your clock (think of your high five sell signal - posting a P&L, acting cocky, etc)

POST IN TRADING PSYCHOLOGY CHAT

Random Rewards

"Every winning trade is not a good trade, and every losing trade is not a bad trade."

You hear us say it all the time, but what does it truly mean? Well, it relates to the dangers of creating bad habits through random rewards. Random Rewards relate to having a positive outcome occur, that could have been more a factor of luck than anything else.

We are very clear on our *"don't hold stock into earnings"* stance, and for good reason. Earnings are a gamble no matter how you look at them. A lot of times a company crushes earnings but something like their guidance is off, which causes the stock to tumble. It is impossible to anticipate the earnings reaction (unless you have inside info which we NEVER trade off), therefore playing a stock into earnings is merely gambling. This is no different than playing blackjack or betting on the Knicks. Ok, maybe you have better odds in Blackjack than with the Knicks.

Either way, let's say you disregard all our advice and buy Apple into earnings. Apple's the best company in the world, nearly everyone has an iPhone, how could they miss? So you buy some stock.

Apple beats earnings and you have a HUGE winner on your hands! Great! You are feeling absolute euphoria because you had no idea what to expect in the outcome, and it worked out in your favor. All of a sudden, trading earnings isn't so bad! You have successfully created a terrible habit within your subconscious. You KNOW deep down in your soul that trading earnings is gambling, but in your heart of hearts you still feel that win which brought you so much satisfaction. This is undoubtedly going to cause you to play earnings again, which is the problem with random rewards.

Earnings are just one example of a random reward but we see them happen all over the market. Maybe it came in the form of buying a weak stock and getting bailed out by a strong market.

Have you ever bought a scratch off and won the first time? What is your next move? I'm hot! Time to buy more scratch offs. In reality, you got lucky the first time and this trade has absolutely nothing to do with the next trade. You've just created a bad habit that will lose you money in the future. Random rewards are something to be avoided at all costs. Winning trades come from putting together layers of probability in your favor and executing appropriately.

A bad habit is like the plague and it must be defeated.

Trading Psychology Task

Can you think of a time you've had a random reward?

What was the trade and how did it play out?

Did it create a bad habit?

Did you take a future loss in the same setup?

POST IN TRADING PSYCHOLOGY CHAT

Sugar High

Let's talk about the good times, the winning times, and why most traders sabotage themselves out of reaping the benefits of their hard work. So you're a bit seasoned at this point, wins are beginning to come at a much more rapid pace. You've developed your 'style' and you have very specific attributes you're looking for in a stock. You're not making consistent money yet, but you're well on your way. The lesser known problem you have is trimming off your gains when everything is going so well.

When you're winning, you're less likely to concern yourself with anything that might be a potential problem, especially something that feels as good as euphoria. A primary characteristic of euphoria is that it creates a supreme self confidence where the possibility of anything going wrong is beyond belief.

It's when you're winning that you are most susceptible to making a mistake whether it be overtrading, too large of position sizing, breaking your rules or just generally operating as if we're in the wild west and you're just out here gunslinging. The market very rarely acts as you wish in these scenarios. Once these future mistakes begin to downtick against you, you quickly go from that euphoric feeling to a negative tone fast. This is one of the greatest expenditures of mental capital there is. The emotional pain becomes significant.

Everyone seems to have different amounts of mental capital, or different thresholds of when overconfidence or euphoria begins to take control of their thought process. The second that this irrational exuberance takes control, the trader is in big trouble.

In a state of overconfidence, you simply cannot perceive any risk because the nature of euphoria does not allow you to believe anything can go wrong. If nothing can go wrong then there is no need for any system of rules to be in place and there are no boundaries to govern your behavior. So in these instances, the propensity to trade much larger than normal size is not only appealing, but compelling!

Once that larger than normal position gets put on, the danger begins. The larger the position, the greater impact each tick has on your P&L. Combine these feats with the subconscious feeling that nothing can go wrong and you are setting yourself up for a world of pain. Once the trade starts ticking against you, you go into a mind-freeze state where your world has just come crashing down. You feel angry and betrayed by the market, when really you were betrayed by your emotions.

It is not only important to create a winning attitude, but also a healthy amount of restraint when one is winning. If you are unable to emotionlessly win, you cannot make it as a trader.

Trading Psychology Task

Can you think of a time you put on too much risk when things were going well?

Do you find you have a higher propensity to put on trades when you are in a good mood?

POST IN TRADING PSYCHOLOGY CHAT

Sleeping With Sara

Have you ever slept with Sara? No not Sara Jessica Parker, or some Sara you met on bumble, I mean Sara. You haven't?

Trust me, we've all slept with her, you just need a reminder. Ever gone through an extremely traumatic experience? Maybe your car was stolen (or attempted to be), maybe you lost a loved one, or maybe it was something like a painfully expensive loss from a stupid investment? If you're a normal human being walking on this earth and went through a crappy experience then you have slept with Sara - and maybe even a few times (you dog, you).

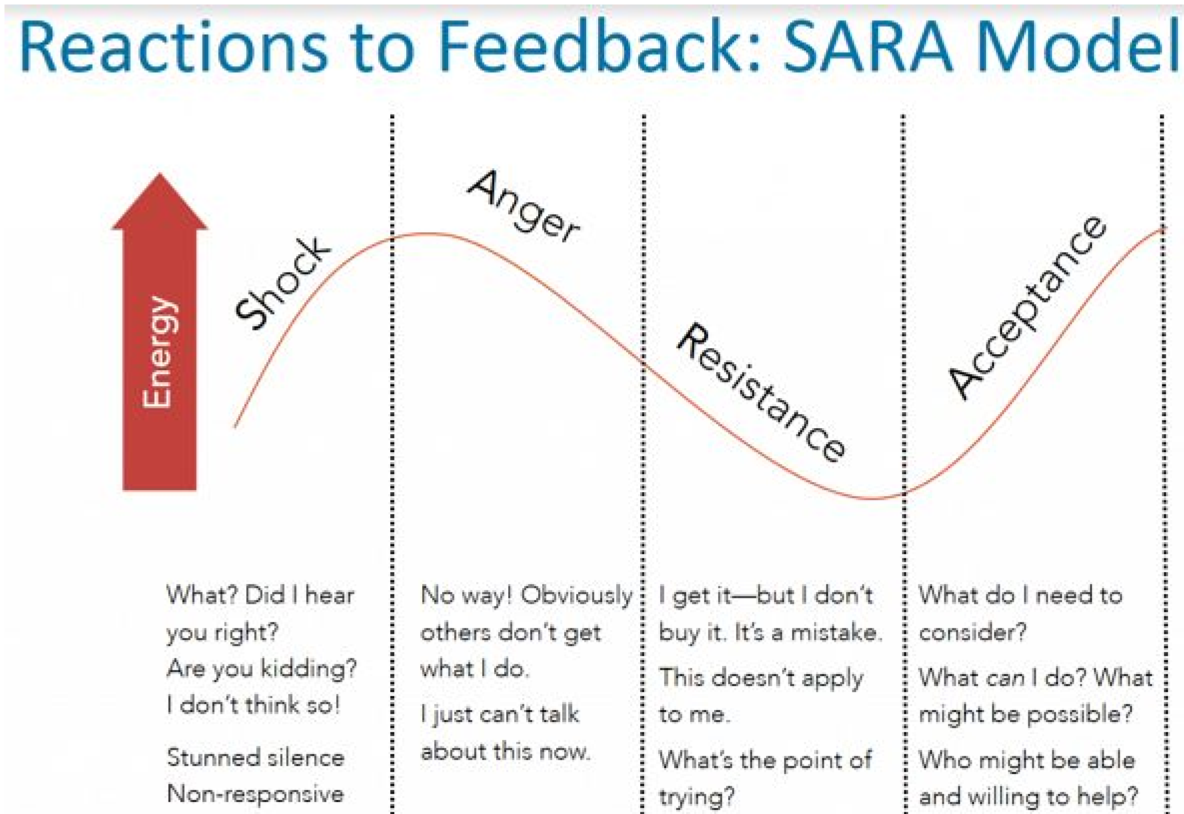
So who is this Sara then? Sara is the emotional stages we go through as we cope with a major loss. First we are **S**hocked, then **A**ngry, then comes the **R**ationalization, and finally the **A**cceptance.

Shocked

Angry

Rationalization

Acceptance



When you start out trading, most new traders tend to marry Sara and can never break up with her, which is unfortunate. Our goal is to get the new trader to break up with that costly girlfriend and get back in the game of swiping right. Spending some time with Sara is truly an essential process for every trader. This is why we hammer down starting with less, losing money sucks, doesn't matter how much you have, it is all relative. You can learn just as much from a 1% loss as you can from a 100% loss and the more zeros added to the equation, the longer most traders spend with Sara and finally accept their mistakes.

Embrace tough love and go to the pain rather than avoid it, remember no pain no gain.

Usually when faced with a major loss, most traders are shocked, "how could this name gap down 25% overnight from earnings? It was supposed to gap up to 100%!" Then it's "screw this name I know I shouldn't have bought it", then in time it's, "damn that was stupid", and then they cross the finish line of "I won't do that dumb stuff again". Do not be afraid of Sara just be aware of her because as a trader we are our own worst enemies. The sooner you can realize that and figure out your weak spots, the sooner you can continue to improve.

Trading PsychologyTask

In the Group Chat explain a time in your life when you slept with Sara and what you learned from it (it does not have to be related to trading).

POST IN TRADING PSYCHOLOGY CHAT

The Shake Out

(Smart Money vs Dumb Money)

It's no secret that technical traders use support and resistance to determine their stops when wrong in a trade. We spoke on this in a more micro sense in the Time Frame lesson about how the HFTs try to push out day traders by 'running stops' and reversing. Now, why do they do this? What is the purpose of it? Are they just dicks and want you to lose money? Maybe, but there is great psychology behind this.

This also happens on larger time frames and are great momentum indicators. They virtually push out the longs, trap the shorts & create a frenzy of buying in the other direction.

Let's think about it simply --- let's say you're long AAPL in the chart below because it's approaching a huge support level around $92. You're thinking, this could be a tight risk entry! Let me buy some and put a $91.99 stop.

It’s coming down to $92 and it finally breaks the support level and you see HUGE volume. These are clearly sell stops. Some traders are taking a loss and some traders are initiating a short entry. All of a sudden ---- a SURGE of buying rips AAPL back above $92. If you just took the loss, the stock is telling you that you weren’t wrong. You are now experiencing FOMO (fear of missing out) and NEED to get back into AAPL. This creates a surge of buying as many traders are thinking the same. If you’re short, you know right away you’re wrong --- and it would be wise to buy back the stock you got short. Do you see how this surge of buying creates momentum?

We actually discussed in chat how we wanted to see the $92 level break in AAPL to push the dumb money out before it could switch gears and show strength. When it finally did break, you can see the huge amount of volume in that area as dumb money puked and smart money acquired.

Then, how ironic, in the news that evening ----

Smart money comes to play, and gets long, now all of those weak hands are going to try and chase Apple. If you can think of the psychology in the way stocks move and what traders from both sides are thinking --- you will be leagues ahead of the competition.

Let's look at a few more examples.

Chip makers have been going nuts in the beginning of 2017. They have been the go-to momentum stocks. AVGO above, gave traders every excuse in the book to sell as it broke the 8/21 SMA downward on a STRONG red daily candle (middle arrow). It even pierced the $209 previous breakout level. What did it do from there? $14 higher in the next 8 sessions. No surprise there.

Remember **BREXIT**, when the world was ending? That shakeout was an unbelievable psychological moment where if you knew the signals to look for, it led to an amazing buying opportunity.

The market gapped down and followed through to the downside (bottom arrow). “Obvious” to be short after such a day. Novice traders didn’t see major support at that descending trendline. Then, it opens up around the previous day’s highs and RIPS higher, trapping the shorts and creating a frenzy of momentum buying to the upside that led the market higher for months. If you were able to catch these signals beforehand, you had a true edge on the rest of the market and opportunity like no other.

Amazon Shakeout then Breakout

Oftentimes, the best breakouts come after a shakeout. We call it the ‘Shakeout then Breakout’. Look at the circled area on the AMZN chart. Creates an awesome bull flag underneath the all time high level. It got very tight and allowed the moving averages to catch up --- this is looking like an A+ setup when you factor in all the other news like six $1000+ price targets and strong buy ratings across the board.

How does AMZN handle this obvious A+ setup? It triggers the trade and absolutely fails HARD. It opened $859, ran to $863 and dropped $20 to close at $843. A lot of traders, myself included, took a loss on that one.

Then, when traders are much less enthusiastic about AMZN, they gap it up right into the breakout level a week later and rip it for $60 in 6 sessions. That is no accident. The momentum is created by all the chasers. These are the things you need to recognize from a psychological standpoint.

Trading Psychology Task

Can you think of a time you've gotten shaken out? What happened?

Did you immediately buy the stock back when you saw it rip back above the support level?

Are you beginning to see how having psychological expertise will have you looking at the market and each individual trade differently?

POST IN TRADING PSYCHOLOGY CHAT

A Belmont Fiasco

A few years back, Shake invited me to the Belmont Stakes to watch American Pharaoh go for the Triple Crown with a bunch of his friends. If you've ever been to Belmont, you know the trains are an absolute shit show getting into and out of the Racetrack. Tens of thousands of drunk idiots trudging back and forth creating delays on delays. Shake suggests that the limo is the best method of transportation, *"Bennett if you're not taking the limo to Belmont --- why even have a limo?"* He makes a valid point and tricks me into going.

The day of, I planned to stop by the bank to deposit some cash ($10k), however, Shake was adamant about a 10am pregame arrival. The race started at 5pm by the way, some call that an insanely long pregame, but Shake *insisted* it was the move. *(*Shake note*: it IS the move, Bennett just can't hang.*) In my rush to get ready I figured it was a better move to hold the cash in my slim fit khakis and deposit it later. After all, we're headed to the classy Belmont Stakes where it's all fancy suits and women in hats, it's not like I'm going to get robbed right?

I previously told myself I wasn't going to drink. However, upon finding out that the race is SEVEN FUCKING HOURS AWAY -- I figured a drink or two wouldn't hurt. I'll pre-game a bit when everyone is pumped for the day ahead, similar to the Alpha Chat at 9:31am on Monday morning.

After, I'd switch to water and be patient as everyone else continued to blackout. That was the plan, however, as traders we know it is very easy to change your game plan as the trade starts to uptick in your favor. High five sell signal anyone?

When we get inside the venue, we make our way over to an area where a group of stereotypical, Jersey-Shore-acting *Long Islanders* were already camped. Now, if I thought Shake's 10am arrival was excessive, these guys must've gotten here at sunrise. How the hell did they get the baby pool full of Moet bottles in here? I immediately lost Shake and his friends and found myself stuck with this group of guys, not wanting to be the loser by himself in the corner.

I drum up a conversation with one of these guys, and eventually work gets brought up. I mention that I'm a trader and work with Shake, who is nowhere to be found.

As any trader knows, once this is mentioned, the other person is likely going to give you their life story in the markets. They're going into their prior endeavors of how well they navigate the market (which 9/10 times is complete horse shit) as they explain the insanity of their 'strategy'. This swollen, tanned Guido was no exception. He gave me the typical dumb money trader answers. His trading strategy in the simplest sense was investing in 3X Long Oil ETFs. If you remember our *"A $60,000 Loss, Who Needs a Gameplan?"* You know I lost a bundle with Triple Leveraged ETFs and have become a bit of a crusader opposing these over leveraged trading vehicles. So as he's telling me this, I'm trying to be nice, while asking simple questions.

Me: *Are you aware of the daily rebalancing?*

Douche: *Yeah I know about oil prices!* (That's like asking if you want butter or cream cheese and replying yes!)

Me: *No I meant the daily rebalancing of the 3X ETF -- you do understand those are short term trading vehicles and not meant to be held overnight due to the daily rebalancing.*

Douche: *Dude what are you talking about, oil is going to $100 a barrel and when it does I'm going to crush it!*

Me: *O…...k. You've been red in that trade since day 1 and you think it's smart to keep adding to a loser?*

Douche: *No I've been making money!*

I pull up my phone, type in DBO and simply ask,

How?

Men Lie, Women Lie, Charts Don't…..

This is where the conversational tide turns from friend to foe. I am asking very simple questions, which he cannot answer and he is obviously getting angry. I already knew he was smoked in the trade because I knew the name and was aware that oil was getting taken out to the woodshed.

People can pretend they're strong and bulletproof, but I was able to poke holes in his armor with a few simple questions. So after a few more questions, I give up, I can't take this guy's delusion any longer. I aim to switch gears and describe the odd lot theory which explains that whatever he thinks is correct is more than likely wrong and vice versa.

Now, I don't gamble. I haven't spent $1 in any casino, never bet on the Super Bowl, and genuinely could care less about the outcome of any horse race. BUT, in the sport of crushing this cocky Long Islander I figured what the hell, he's a horrible trader, he is definitely an even worse gambler. So I offer a proposition:

I pull out the 10 racks and tell him:

"I will bet you $10,000 that whichever horse you bet to win will lose, you in?"

He looks at the wad of crisp hundreds in my hand, and asks to see it, to count it. I handed it to him and said "*sure you can count it, it's $10,000."*

Now the tide changes once more, and this is where being able to stay calm and formulate a gameplan on the fly comes into play. As soon as I handed him the money….

He takes it, looks at it briefly as if it's a 6 inch subway sandwich, looks at me and puts it in his pocket and replies *"thanks for the $10k!"*

Now mind you, I am by myself at his table/area with all of his friends and I am alone. Sure I could have dropped him and tried to get the money back, but 9/10 times I'm getting jumped and more importantly not leaving with the cash (bad game plan - emotional).

I could beg and show weakness, maybe he'll show mercy and give it back -- on second thought -- screw that I'd rather him light it on fire (bad game plan - ego).

How can I turn this franchise around and really crush this piker? In the brief moment after he says thanks, I look over his shoulder and see 2 bouncers off in the distance. They were working the back door of the beer tent -- talk about the lowest level of the socio-economic call of security guards. The back door of the beer tent, lol. They're not running the front door, giving people the once over until they get slipped a $100. They are watching the back door with no action other than watching the bus boys throw out the trash. I'm thinking I can use them in my favor, but first let's set this trade up.

Time to execute the game plan I formulated in the past few moments.

After he replies thank you, I laugh and reply *“You think I came here alone? That's my beer money. If you want to keep it, go for it. Just realize I came here in my own personal limo* (which was true) *and I also have my own private detail, and they HATE IT when I take a loss.*

Now, Douche has his back turned to the bouncers, therefore he cannot see them. I gently point over his shoulder at the 2 clueless security guards and wave them over.

They both cluelessly look at each other since I am the first person to address them all day, they immediately start walking over. As they do, Douche turns around to see two mammoth security guards wearing ridiculous tuxedos walking over with authority.

He sees them, turns back to me and starts to panic. His reaction is very similar to my questioning of his awful oil trading strategy. He quickly reaches into his pocket, hands me the cash and wants to be friends again. I promptly waved off the security guards who just gave me a look of utter confusion. This Douche thinks I’m even cooler now and wants to become best friends. I, on the other hand, want to knock this tool out, but I have to play it cool, long game remember. He throws his arm over my shoulder and says I’m buying you a beer, let's go! Meanwhile the kid had thirty bottles of Moet two feet away! Talk about an awful trader. But sure, let's go buy $17 beers. So he orders two beers, and I see two girls next to us, so I tell the bartender two more for the ladies. The look of panic comes over his face yet again -- the kid couldn't afford four beers at the cash only tent.

I nonchalantly tell him to put the crumbled $20s away -- for the love of God. I got it and peel off $100 from the bankroll, grab the beers and hand them to the girls to introduce myself. I then turn my back to the Douche for his cue to get the hell away from me. We all walk off toward the stadium while Douche just stands there -- alone, beer in hand, and confused as ever.

It pays to have a game plan.

Trading Psychology Task

Was there ever a time when you have to think on your feet to turn the table on a situation you got stuck in?

POST IN TRADING PSYCHOLOGY CHAT

Keep up the consistency, only 25% left to go! Let's hear it in the chat "I only have 25% left to finish Trading Psychology, I will complete it by (insert your deadline)!

Listen to Legends

Remember in the Game Planning Program "*Risk-Reward, Penthouse or Poor House"* we went over why famed investor Ray Dalio will only take trades with a min of 5:1 risk reward or better and for good reason. Below we will go over a few more key concepts that billionaire investors such as Ray Dalio, Kyle Bass and Richard Branson use. Richard Branson a legendary trader? Continue on and you will see why!

1. **Capping your downside**

Capping your downside is the most recurring theme you will hear legendary traders bring up when asked what is most important. Even if you have asked us about a trade idea, usually our first question is 'Where's your out? What's your risk?'

It's always great when a trade works however we want to be prepared for the worst case. Richard Branson is far from a Wall Street trader, except he looks at business the same way traders look at stocks. Richard Branson's first question when it comes to investments is, *"What's the downside? How can I protect against it?"*

When starting Virgin Airlines, which is one of the riskiest sectors to dabble in, he was able to negotiate a deal with Boeing, that if the business failed, he could return the planes. Removing his liability on the debts of some of the most expensive machines known to man. Talk about a risk free trade! This is right around the time he gave us this great quote in a Forbes article:

"How do you become a millionaire in the airline industry? Start with a billion!"
Richard Branson

In every trade, our first goal is to limit as much downside as reasonably possible. We can't put our stop $.05 below our entry or remove all the risk. However, from proper chart reading and understanding how stocks move based on trading psychology, we know that there are certain areas where the trade will fail and that's where we aim to exit if we're wrong. If we're expecting a breakout and the stock is closing at the lows of days, then we are clearly wrong. Instead of being stubborn, we'll just return our stock and move on. Same principle that Richard Branson set up with Virgin Airlines had it failed.

2. Asymmetrical risk reward

All of the legends above, as well as virtually any successful trader has a focus on asymmetric risk reward. In plain english that means that we aim to make at least 5:1 risk reward, while most new traders aim for 2:1. For a quick exercise, go grab a piece of paper (or just the guide below) and fill out a % ratio you think you would be right in your trades and base it on 2:1, 3:1, 4:1, 5:1, 10:1 risk reward etc.

Let's say that you're right 40% of the time, and we'll fill out 2 examples. If right you make $2, if wrong you would lose $1 with 2:1, $5 to $1 for 5:1 etc etc.

	2:1	5:1
Trade 1	Won +$2	Won +$5
Trade 2	Won +$2	Won +$5
Trade 3	Lost -$1	Lost -$1
Trade 4	Lost -$1	Lost -$1
Trade 5	Lost -$1	Lost -$1

Now based on being right 40% of the time with these two different risk rewards, can you see how a 2:1 risk reward is like swimming with lead weights?

Now 40% is being very generous, as a full time professional trader with over 1,000 trades on average each year, we are usually in the 32-36% bracket. Let's go even lower and let's say that we're only right 20% of the time.

	2:1	5:1
Trade 1	Won +$2	Won +$5
Trade 2	Lost -$1	Lost -$1
Trade 3	Lost -$1	Lost -$1
Trade 4	Lost -$1	Lost -$1
Trade 5	Lost -$1	Lost -$1

Most new traders have this air of confidence that we also had, where every trade is going to work because we're smart, right? In the beginning it's usually the exact opposite, 100% right, probably more likely to be 100% wrong. Having the proper risk reward gives you or I a fighting chance.

Want to hear of one of the craziest risk free trades out there from Billionaire Kyle Bass who gave his children a lesson on risk. The trade was in nickels, yes nickels the change you get that you usually toss in the top drawer.

Perhaps the best way to understand the true value of our currency is to melt down the coins and sell the raw metal

	Description	Denomination	Metal Value
	Nickel 1982 to 2011	5 cents	5.40574 cents
	Penny 1909 to 1982 (95% copper)	1 cent	2.37117 cents
	Penny 1982 to 2011 (97.5% zinc)	1 cent	0.502486 cents

A nickel is what Kyle Bass determined as the only risk free trade ever. You buy a nickel for $.05 and you are immediately up 20% if you “illegally” melt the coin down and sell the raw metal. To prove a point Kyle Bass bought $1,000,000 worth of nickels and put them in his basement, he made $360,000 by doing that.

3. Asset Allocation

All the legends above know without a shadow of doubt that they are going to be wrong. We think the same way, we’re not gurus who can predict the future and be right all the time. We know we're going to be wrong and that's why we do so much game planning. Now Asset Allocation dips more into the investing camp and less on the trader who might only have a few positions on. However the same principle applies, even for us when we have 5-6 swing positions on. We are much more confident in our trades and can easily spot which one of those trades is really a dog and needs to be cut. If we only have say, 1 swing on, our eyes are glued to the screen, watching each tick and we are usually far more vested in the idea, which can ultimately hurt us.

Now in the beginning if you don't have that much capital, asset allocation might seem impossible. But it doesn't have to be. If you have $5,000 for example and put $1,000 in each idea instead of going all in on 1 you would be far better off in the long run, since all of your eggs are spread out as best as possible.

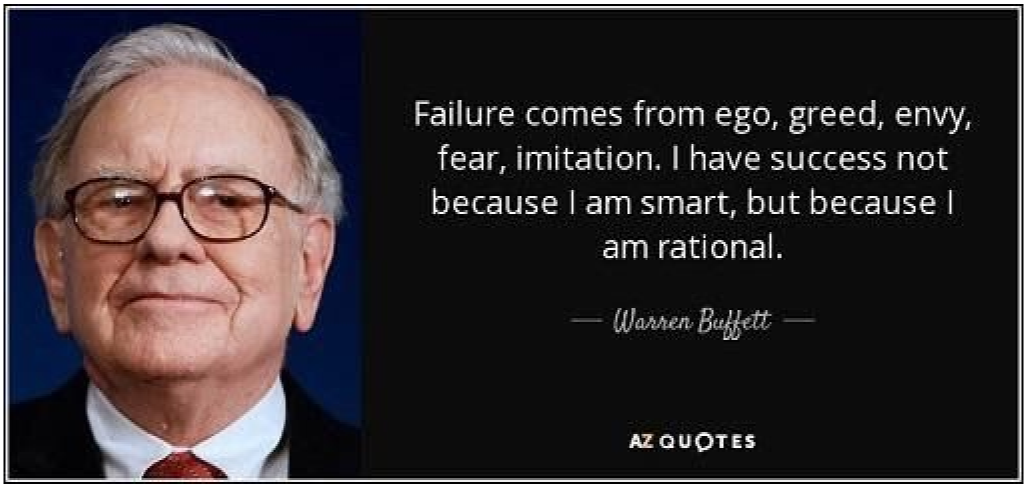
Trading Psychology Task

Share 1 thing you learned from each of the three main points in the lesson.

POST IN TRADING PSYCHOLOGY CHAT

Pro's vs Pretenders

We don't think we could put the difference between the consistent winners and everyone else more simply than this:



The best traders are not afraid. They are not afraid because they have developed attitudes that give them the greatest degree of mental flexibility to flow in and out of trades based on what the market is telling them. They have supreme confidence in their abilities.

At the same time, the best traders have developed attitudes that prevent them from getting reckless. Everyone else is **afraid**, to some degree or another. When they are not afraid, they have the tendency to become reckless and to create the kind of experience for themselves that will cause them to be afraid from that point on. They have the confidence to execute when market parameters tell them to do so, and the restraint to know when it's time to cool the jets.

The difference between these two groups of traders (the winners and everyone else) are analogous to the difference between the Earth and the moon. The Earth and the moon exist in the same solar system, so they have something in common. However they are different in nature and virtually all characteristics just as night and day.

By the same token, anyone who puts on a trade can claim to be a trader, but when you compare the characteristics of most other traders, you'll find they're also as different as night and day.

If going to the moon represents consistent success as a trader, then getting to the moon is possible. The journey is extremely difficult and that's why only a handful of people make it. From our perspective here on Earth, the moon seems so close that we would reach out and touch it.

Trading successfully feels the same way, on any given day the markets make available vast amounts of money to be made or lost depending where you are on your journey. It is an endless spew of information and whether you capitalize or fall victim, is up to you. Let’s take a deeper look into the habits of the Pro’s vs the Pretenders.

Pro Habits:

- They know exactly where they want to buy a stock and how much they're willing to risk & why they're buying it
- Focuses first on their downside
- Has a set of rules they follow religiously
- Understands 'Mental Capital' is just as important as 'Trading Capital'
- Thinks in probabilities
- Focuses on Risk/Reward
- Doesn't get emotionally attached to symbols -- they know it's just a trade and not marriage
- Finds attractive charts and keeps them on their radar for days/weeks/months and only act on them when a certain criteria is reached
- They're willing to let trades go instead of chasing

- They know to evolve with the market and when certain setups stop working they figure out which ones are
- They have relative expectations of the market -- but know anything can change in an instant
- Has a consistent focus on discipline
- Takes a long term view and understands that it takes time to grow an account

Pretender Habits:

- Finds new setups each day and formulates a BS gameplan -- or none at all
- Strictly focuses on their upside
- Depends on luck
- No consistency in their work ethic. One week their charting is spectacular then they take a week off, etc.
- Looks toward different cues in each setup (creating no consistency)
- They don't evolve with the market and lose all their money in periods of 'chop'
- Blames others for their shortcomings
- Wants to get rich overnight

Trading Psychology Final Task

What are 3 bad habits you will get rid of when it comes to your trading?

POST IN TRADING PSYCHOLOGY CHAT

What are 3 good habits you are working on to improve your trading?

POST IN TRADING PSYCHOLOGY CHAT

Congrats on completing the Trading Psychology Program!

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